Audit Report

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE AIR FORCE AUDIT AGENCY AUDIT OF THE FY 1999 AIR FORCE GENERAL FUND FINANCIAL STATEMENTS

Report No. D-2000-084 February 14, 2000

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932 or visit the Inspector General, DoD, Home Page at: www.dodig.osd.mil.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Audit Followup and Technical Support Directorate at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronym

AFAA	Air Force Audit Agency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

February 14, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1999 Air Force General Fund Financial Statements (Report No. D-2000-084)

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Air Force Audit Agency disclaimer of opinion on the FY 1999 Air Force General Fund financial statements, along with the Air Force Audit Agency Audit Report, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements," February 9, 2000. An audit of the Air Force General Fund financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Because this report contains no findings or recommendations, no written comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. W. Andy Cooley at (303) 676-7393 (DSN 926-7393) (wcooley@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-084 **February 14, 2000**
(Project No. 0FD-2111)

Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1999 Air Force General Fund Financial Statements

Executive Summary

Introduction. An audit of the Air Force General Fund financial statements is required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the FY 1999 Air Force General Fund financial statements to the Air Force Audit Agency. This report provides our endorsement of the Air Force Audit Agency disclaimer of opinion on the FY 1999 Air Force General Fund financial statements, along with the Air Force Audit Agency Audit Report, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements."

Objective. Our objective was to determine the accuracy and completeness of the Air Force Audit Agency audit of the FY 1999 Air Force General Fund financial statements. See Appendix A for a discussion of the audit process.

Results. The Air Force Audit Agency Audit Report, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements," February 9, 2000, states that the Air Force Audit Agency was unable to express an opinion on the reliability of the FY 1999 Air Force General Fund financial statements. We concur with the Air Force Audit Agency disclaimer of opinion; our endorsement of that disclaimer is Exhibit 1. The Air Force Audit Agency report is Exhibit 2.

Internal Control Structures and Compliance With Laws and Regulations. The Air Force Audit Agency issued reports on internal controls and compliance with laws and regulations in the Air Force. Those reports are included in the Air Force Audit Agency report.

Table of Contents

Executive Summary i

Appendixes

A. Audit Process
   Scope 1
   Methodology 2
   Prior Coverage 2
B. Report Distribution 3

Exhibits

1. Inspector General, DoD, Endorsement Memorandum
2. Air Force Audit Agency Audit Report, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements"

Appendix A. Audit Process

Scope

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Air Force Audit Agency (AFAA) of the FY 1999 Air Force General Fund financial statements. We reviewed the AFAA audit approach and planning and monitored audit progress at the key points.

Reviewing the AFAA Audit Approach. We used the "Federal Financial Statement Audit Manual," January 1993, issued by the President's Council on Integrity and Efficiency, and the "Financial Audit Manual," December 12, 1997, issued by the General Accounting Office, as the criteria for reviewing the AFAA audit approach. Specifically, we reviewed documentation for the audit planning and strategy, entity profile, general risk analysis, cycle memorandums, audit plans and programs, and other applicable documentation of the Air Force General Fund business areas.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD Consolidated financial statements, including the supporting financial statements of major DoD Components. We also periodically reviewed the audit progress and working papers supporting the AFAA FY 1999 opinion.

In addition to the oversight procedures, we performed other procedures necessary to determine the fairness and accuracy of the AFAA audit approach and conclusions. We reviewed findings and recommendations in previous AFAA reports.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense established 2 DoD-wide corporate-level goals, 8 subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2**: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. **(01-DoD-2.5.1)**

- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objective and goal. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Auditing Type, Dates, and Standards. We performed this financial statement audit from October 27, 1999, through February 9, 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data or statistical sampling procedures.

Contacts During the Audit. We contacted individuals and organizations in the DoD audit community. Further details are available on request.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at http://www.gao.gov. Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Denver Center
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
  National Security and International Affairs Division
    Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Exhibit 1. Inspector General, DoD, Endorsement Memorandum

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

FEB 14 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1999 Air Force General Fund Financial Statements (Project No. 0FD-2111)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Air Force Audit Agency (AFAA) the audit of the FY 1999 Air Force General Fund financial statements. Summarized as follows are the AFAA disclaimer of opinion on the FY 1999 Air Force General Fund financial statements, report on internal controls, report on compliance with laws and regulations, and the results of our review of the AFAA audit. We endorse the disclaimer of opinion expressed by AFAA.

Disclaimer of Opinion. The AFAA disclaimer of opinion, dated February 9, 2000, on the FY 1999 Air Force General Fund financial statements states that AFAA was unable to express an opinion on the financial statements. We concur with the AFAA disclaimer of opinion that material uncertainties existed regarding the reasonableness of amounts reported on Air Force General Fund financial statements. Those uncertainties existed because of the following:

- The financial statements were not prepared in time for AFAA to perform necessary audit work before the reporting deadlines established by the Office of Management and Budget.

- The Air Force and the Defense Finance and Accounting Service did not implement the U.S. Government Standard General Ledger chart of accounts, and the systems used to account for funds did not employ a transaction-driven ledger to capture financial management information.

- The Air Force did not comply with Federal accounting standards because it used standard price to value operating materials and supplies, and it did not do the following:

  -- report gains and losses on disposal of general property, plant, and equipment;

  -- recognize holding gains and losses related to revaluations of operating materials and supplies;

  -- revalue at their net realizable value operating materials and supplies (excluding munitions) identified as excess, obsolete, or unserviceable; and

  -- fully use the consumption method of accounting for operating materials and supplies.

- The Air Force could not accurately identify all intragovernmental transactions by customer.

- The Air Force could not rely on closed year appropriation balances.

- The Air Force estimated that it still needed to determine the historical cost, accumulated depreciation, and acquisition date for $895 million in General Fund equipment as of September 30, 1999.

- A backlog in recording real property transactions had caused real property values to be materially understated.

- The extent of environmental cleanup liabilities was uncertain because of incomplete documentation for cleanup cost estimates.

- The Air Force did not adequately document real property construction-in-progress of $1.8 billion, which was reported by Army Corps of Engineers and Naval Engineering Command.

- The effects of the internal control weaknesses and noncompliance with laws and regulations that the Air Force and AFAA identified prevented completing substantive tests of material lines of the Statement of Budgetary Resources. The AFAA also could not confirm the ending obligated and unobligated balances on the Statement of Budgetary Resources for FY 1998; consequently, AFAA could not confirm the beginning balances on the FY 1999 statement.

Internal Controls. The AFAA tested internal controls but did not express a separate opinion on internal controls because that was not one of their objectives. However, AFAA determined that internal controls did not provide reasonable assurance of achieving the internal control objectives described in the Office of Management and Budget Bulletin, "Audit Requirements for Federal Financial Statements." We concur in the following material weaknesses and reportable conditions identified by AFAA.

- Internal reviews by Defense Finance and Accounting Service Columbus Center determined that access controls were inadequate over the conversion of contracts, invoices, and other original documents to electronic media in response to new DoD electronic commerce initiatives.

- Reporting of obligated balances were subject to material weakness because transaction records were not available and internal controls did not ensure proper matching of disbursements with related obligations.

- Supporting documentation controls over disbursements at the Defense Finance and Accounting Service Columbus Center were inadequate because center personnel could not promptly retrieve or provide documentation. Documentation provided could not be readily identified to the related transactions.

- Material control weaknesses existed in real property accounting because of inadequate application controls in the new Automated Civil Engineer System.

- The Contractor Property Management System used to report $2.9 billion of Air Force operating materials and supplies did not distinguish between General Fund and Working Capital Fund assets or provide data in a timely manner.

We also concur that the audit trails for transactions reported on the financial statements did not meet internal control requirements. Although AFAA noted improvements in the reconciliation of transactions to financial statements, AFAA could not fully reconcile the transaction-level details reported at the field level, including those tested, to the financial statements. Transaction-level details supporting disbursements included in the Statement of Budgetary Resources did not reconcile to the financial statements. In other instances, AFAA could not complete other reconciliation tests because of the effects of the internal control weaknesses and instances of noncompliance with laws and regulations identified by the Air Force and the AFAA audit.

The Air Force and the Defense Finance and Accounting Service recognized many of the financial reporting weaknesses and reported them in their FY 1999 Annual Statements of Assurance. Details on the internal control weaknesses will be provided in separate AFAA reports.

Compliance With Laws and Regulations. We concur in the areas of noncompliance with laws and regulations that AFAA identified, which will be discussed in more detail in separate AFAA reports. Under the Federal Financial Management Improvement Act of 1996, the AFAA work showed that the financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Review of Air Force Audit Agency Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent work that AFAA conducted, we reviewed the audit approach and planning and monitored progress at key points. We also performed other procedures to determine the fairness and accuracy of the approach and conclusions.

We reviewed the AFAA work on the FY 1999 Air Force General Fund financial statements from October 27, 1999, through February 9, 2000, in accordance with generally accepted Government auditing standards.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Exhibit 2. Air Force Audit Agency Audit Report: "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements"

AIR FORCE AUDIT AGENCY

OPINION ON FISCAL YEAR 1999 AIR FORCE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT REPORT

99053002

9 February 2000

TABLE OF CONTENTS

		Page
Opinion Letter		1
APPENDIX		
I	Management Comments	13
II	Fiscal Year 1999 Air Force General Funds Financial Statements	15
III	Major Contributors	183
IV	Final Report Distribution	185

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

9 February 2000

To the Secretary of the Air Force
Chief of Staff, USAF

We were engaged to audit the accompanying Air Force General Fund financial statements for the fiscal year (FY) ended 30 September 1999. The annual financial statements consist of the Balance Sheet and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. Preparing these financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS) and Air Force management. This report presents our opinion on the financial statements, evaluation on the effectiveness of internal controls over financial reporting, and assessment of compliance with laws and regulations.

OPINION ON THE FINANCIAL STATEMENTS

We are unable to express, and we do not express, an opinion on the Air Force Balance Sheet or the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. We were unable to obtain sufficient, competent evidential matter, or apply other auditing procedures to satisfy ourselves as to the fairness of these statements under provisions of the *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin, Audit Requirements for Federal Financial Statements. Also, our audit work was impeded because the financial statements were not prepared in time to fully perform necessary audit work before the reporting deadlines established by the OMB. Material uncertainties exist regarding the reasonableness of amounts reported on these statements. Air Force management has disclosed many of these uncertainties as compliance or data problems in the financial statement notes. For example:

- DFAS and Air Force have not implemented the United States Government Standard General Ledger chart of accounts. Further, systems used to account for Air Force funds do not have a true transaction-driven general ledger to provide a consolidated source of financial management information for either management or financial statement purposes. (Financial Statement Note 1)

- The Air Force use of standard prices to value operating materials and supplies does not comply with federal accounting standards and does not report gains and losses on disposal of general property, plant, and equipment. The Air Force also does not recognize holding gains and losses related to operating materials and supplies revaluation that occurs when standard prices are used. Also, except for munitions, the Air Force does not revalue operating materials and supplies at their net realizable value when they are identified as excess, obsolete, or unserviceable in accordance with Statement of Federal Financial Accounting Standards Number 3, Accounting for Inventory and Related Property, 27 October 1993. Finally, the Air Force does not fully use the consumption method of accounting for operating materials and supplies. (Financial Statement Notes 1 and 8)

- The Air Force cannot accurately identify all intragovernmental transactions by customer. (Financial Statement Note 1)

- Closed year appropriation balances are not reliable. (Financial Statement Note 1)

- Air Force management officials estimated that, as of 30 September 1999, the Air Force still needed to determine the historical cost, accumulated depreciation, and acquisition date for $895 million in general fund equipment. (Financial Statement Note 9)

Other reasons for our disclaimer include a material understatement of real property value resulting from a backlog in recording real property transactions, and material uncertainties in the extent of environmental cleanup liabilities resulting from incomplete documentation of cleanup cost estimates. Further, we could not verify the accuracy of $1.8 billion of $2.8 billion construction-in-progress costs reported in the financial statements because the Air Force did not ensure the Army Corps of Engineers and Naval Facilities Engineering Command provided supporting documentation in sufficient detail to confirm the reported amounts.

In addition, we disclaim an opinion on the Statement of Budgetary Resources because of the effects of our FY 1998 disclaimer of opinion. We could not confirm the ending obligated and unobligated balances on that statement for FY 1998; consequently, we could not confirm the beginning balance on the FY 1999 statement. Efforts are ongoing to establish audited beginning period balances for FY 2000.

The Required Supplementary Information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin 97-01, Form and Content of Agency Financial Statements, 16 October 1996. We applied certain limited procedures to the deferred maintenance portion of this information; however, we did not audit the information and, therefore, express no opinion on it. Required Supplementary Stewardship Information is also

not a required part of the basic financial statements and is not required to be audited. However, we selectively tested additions and deletions of national defense property, plant, and equipment reported in the Required Supplementary Stewardship Information. We also express no opinion on the Required Supplementary Stewardship Information.

MANAGEMENT ACTIONS

In FY 1998, the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) initiated strategies designed to produce auditable financial statements. Also, DFAS and the Air Force continued taking actions in FY 1999 to improve Air Force financial data accuracy and reporting in support of those initiatives. To illustrate:

- The Air Force and DFAS undertook extensive measures to improve the accuracy and auditability of budgetary data. Both organizations took actions to improve procedures related to periodic review of obligations, and DFAS worked with auditors to establish audit trails and reconcile field-level accounting transaction data to the departmental-level data used to prepare financial statements.

- The Air Force is working with DFAS to improve all accounting systems and "feeder systems" that provide financial data to the accounting systems. The Air Force has initiated the Financial Systems Information Assessment Study to identify functional and technical interactions among the financial systems serving the Air Force. The objective of this study is to remedy significant deficiencies and create an integrated set of systems to support Air Force business processes and financial reporting. To resolve the issues identified by this study and other actions, the Air Force has formed an Integrated Process Team composed of the subgroups responsible for corrective actions.

- During FY 1999, the Air Force fielded the real property module of the Automated Civil Engineer System at active Air Force bases and began using it for reporting real property asset information to the general ledger for financial statement preparation. Implementation for the Air National Guard will be completed in FY 2000.

- The Air Force continued to develop the Air Force Total Cost of Ownership information system to provide more details on weapon system support costs. The Air Force Vice Chief of Staff established a Steering Group to develop an overall plan for implementing Activity-Based Costing/Management to improve cost management. Further, in July 1999, DoD contracted with a major accounting firm to perform a DoD-wide study of cost accounting. The Air Force is presently evaluating the study results released in December 1999.

- The Air Force continued contracts initiated in FY 1998 with major accounting firms to ascertain the fair value of Air Force real and personal property. This effort includes validating all data being entered into the real property database and the Air Force Equipment Management System.

- The Air Force contracted with consultants to prepare and provide models for maintaining documentation to support costs for completing environmental restoration projects. Further, in November 1999, management provided interim guidance to commanders for preparing and maintaining cost estimate supporting documents. This effort is ongoing.

- The DFAS, with support from the Air Force, took action to improve end-of-period cut-off reporting to ensure expense and obligation transactions are reported in the period when they occur.

- The Air Force modified the Comprehensive Engine Management System programs, resulting in accurate identification and reporting of uninstalled engine gains and losses in FY 1999.

REPORT ON INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that transactions are properly recorded, processed, and summarized to permit preparation of financial statements in accordance with federal accounting standards, and to permit safeguarding assets against loss from unauthorized acquisition, use, or disposal. Because of inherent limitations in any system of internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate. In addition, our consideration of internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under auditing standards. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Although we accomplished internal control testing, our financial statement audit objectives did not include providing a separate internal control opinion; accordingly, we do not express such an opinion. However, the OMB Bulletin, Audit Requirements for Federal Financial Statements, requires that we describe reportable conditions and material weaknesses identified during the audit. Accordingly, the following paragraphs summarize material weaknesses and reportable conditions that existed in the design or operation of the internal control structure over financial reporting in effect at 30 September 1999 for the Air Force

consolidated financial statements. These weaknesses, along with recommended remedial actions, time frames for corrective actions, and management comments, are more fully described in supporting audit reports issued separately to Air Force and DFAS management.

Electronic Commerce Initiatives

As part of a Deputy Secretary of Defense initiative designed to expand the use of new technologies, improve business practices, and make progress toward paperless contracting, DFAS is participating in a series of electronic commerce initiatives. These initiatives include Electronic Document Access (shared documents across DoD using the Internet), Electronic Data Interchange (computer to computer exchange of business information in a standard format), and Electronic Document Management (imaging to eliminate reliance on paper versions of documents such as invoices). Because they are not dependent on hard-copy, original source documentation, electronic commerce initiatives increase the possibility that fraudulent or erroneous information could enter the accounting and disbursement systems without being detected. Until independent auditors have reviewed these initiatives and their related internal controls, we must treat them as internal control weaknesses. The DoD Inspector General has scheduled a review of electronic commerce initiatives to commence during FY 2000.

Obligations

The process for reporting obligated balances is subject to material weaknesses because transaction records are unavailable and internal controls did not ensure proper matching of disbursements with related obligations. (Draft Report of Audit 00053011, Revenue and Other Financing Sources – Obligated Balances, FY 1999)

a. Obligations Incurred and Recoveries of Prior Year Obligations. DFAS accounting systems do not maintain individual transaction records of Air Force obligations incurred and recoveries of prior year obligations. Instead, the systems calculate totals for these types of transactions based upon net changes in obligated balances during the period. As a result, no transaction records are available for audit. Moreover, the totals for obligations incurred and recoveries of prior year obligations included on the Statement of Budgetary Resources at $85.4 billion and $2.2 billion, respectively, could be materially misstated because the accounting systems ignore individual increases and decreases which may have contributed to the calculated net change in obligations.

b. Matching Disbursements to Obligations. The DFAS internal controls did not ensure proper matching of disbursements with related obligations, resulting in $327 million of negative unliquidated obligations in the accounting systems. Through electronic commerce initiatives and prevalidation of disbursements, DFAS and Air Force officials are working to resolve this long-standing internal control issue.

Audit Trails

Although DFAS actions resulted in dramatically improved audit trails this year, the audit trails, in our opinion, still do not meet internal control requirements. DFAS does not routinely reconcile field-level data to departmental summary records from which the financial statements are compiled, and DFAS management cannot readily reconstruct or duplicate the transactions and adjustments for validation purposes. Although we reconciled transactions we tested to the financial statements in most instances, management cannot have assurance that reported financial balances are correct without a permanent and easily determinable audit trail to the underlying transactions. Therefore, a significant risk exists that errors or irregularities may occur and not be detected within a timely period. (Draft Report of Audit 00053012, Revenue and Other Financing Sources – Adjustments and Reconciliations, FY 1999)

Supporting Documentation for Disbursements

The DFAS operating locations where we performed our audit continued to improve in producing supporting documentation. In nearly all cases, operating location personnel provided adequate supporting documentation for the disbursement transactions selected for audit. However, supporting documentation controls over disbursements at the DFAS Columbus Center were inadequate. Specifically, DFAS Columbus personnel were not able to promptly retrieve or provide documentation, and when provided, the documentation could not be readily identified to associated transactions. (Draft Report of Audit 99053004, Managerial Cost Accounting – Disbursements, FY 1999)

Real Property

Material control weaknesses existed in real property accounting. We determined application controls in the newly initiated Automated Civil Engineering System (ACES) needed strengthening in the areas of work orders, journal numbers, estimated value, additions and deletions, and facility usage. As a result of these control weaknesses, ACES did not capture estimated value costs of approximately $392 million in the General Ledger with the resulting understatement of real property values. Of note, real property personnel at over half the locations audited stated they did not receive adequate training (50 of 99 locations) or receive sufficient written guidance related to ACES operations (51 of 99 locations). Further, 20 of the 99 locations audited were missing real property record documentation for periods ranging from 1 to 20 years, and we could not verify the accuracy and reliability of the real property database related to those specific locations and years. We attributed the control issues, in part, to the start up of ACES and believe some of the problems will be eliminated as implementation progresses. (Draft Report of Audit 99053006, Air Force Real Property, FY 1999)

Operating Materials and Supplies

We could not verify the accuracy of a material portion of operating materials and supplies. The Air Force and DFAS obtained $2.9 billion (14 percent) of the Operating Materials and Supplies account balance from the Defense Logistics Agency's Contractor Property Management System. We could not verify the Operating Materials and Supplies account accuracy because the Contractor Property Management System does not distinguish between General Fund and Working Capital Fund assets or provide data in time to meet financial statement reporting milestones. (Draft Report of Audit 99053003, Inventory and Related Property, FY 1999)

Performance Measures

We did not identify any control weaknesses in our limited review of internal controls related to performance measures reported in the overview to the principal statements and notes. However, we only obtained an understanding of the sources and controls related to performance measures; our work was not intended to determine whether controls were in place and working as designed. Further, the Air Force is updating these measures to align them with its strategic plan. Finally, the information presented in the Overview was materially consistent with the financial statements and footnotes.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Air Force management is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance Air Force financial statements are free of material misstatement, we performed tests of Air Force compliance with certain laws and regulations where noncompliance could have a direct and material effect on determining financial statement amounts, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA), the Federal Managers' Financial Integrity Act (FMFIA), and the Statements of Federal Financial Accounting Standards (SFFAS). Our audit objectives did not include providing a separate opinion on overall compliance with laws and regulations and, accordingly, we do not express such an opinion.

However, the Federal Financial Management Improvement Act requires report disclosure on whether Air Force financial management systems substantially comply with federal financial management requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we tested compliance using the guidance included in Appendix D of OMB Bulletin, Audit Requirements for Federal Financial Statements. We determined the Air Force and DFAS existing systems and controls did not enable full compliance with laws and regulations, which could have a direct and material effect on the FY 1999 Air Force financial statements. We considered the noncompliances reported below in forming our opinion on the FY 1999 Air Force consolidated financial statements. In addition, these weaknesses, along with

recommended corrective actions, time frames for corrective actions, and management comments, are described in the cited supporting reports.

Federal Financial Management Improvement Act

The results of our tests disclosed instances, described below, where Air Force or DFAS systems did not substantially comply with the three Federal Financial Management Improvement Act requirements.

a. Federal Financial Management System Requirements. For FY 1999, our audits of the general and application controls of 8 Air Force General fund feeder systems and 5 DFAS-owned Air Force General Fund systems determined that 11 systems were deficient in the area of internal controls, 6 were deficient in accounting conformance, and 3 were deficient in other legal requirements. The primary system control weaknesses identified in the eight feeder systems examined were audit trails (six systems), access controls (five systems), configuration management (four systems), completeness (four systems), and accreditation (three systems).

b. Federal Accounting Standards. For FY 1999, Air Force management acknowledged its financial management systems did not substantially comply with federal accounting standards. Specifically, footnotes to the principal statements stated the Air Force did not: use the correct basis to value material and equipment; recognize gains and losses on disposal of general property, plant, and equipment; recognize holding gains and losses related to the revaluation of operating materials and supplies; except for munitions, revalue operating materials and supplies at their net realizable value when identified as excess, obsolete, or unserviceable; or use the consumption method of accounting for operating materials and supplies. The Air Force also recognized that government property in the possession of contractors cannot be accurately reported, all intragovernmental transactions by customers cannot be accurately identified, and closed-year appropriation balances are not reliable. We identified additional departures from federal accounting standards which are detailed later in this report.

c. US Government Standard General Ledger at the Transaction Level. Air Force and DFAS managers did not use the US Government Standard General Ledger at the transaction level. Further, financial statement footnotes disclose that the Air Force and DFAS have not implemented systems that use a true transaction-driven general ledger process. Because DFAS did not have a transaction-driven general ledger process, data were extracted from multiple automated and manual systems to determine account balances, significantly increasing the potential for account balance misstatements.

Federal Managers' Financial Integrity Act

The Air Force acknowledged in its FY 1999 Statement of Assurance that Air Force systems do not fully comply with federal financial management systems requirements. The Report on Air Force Critical Financial Management Systems in the Statement of Assurance identifies the 40 systems that provide significant information to the DFAS accounting systems that

produce the Air Force financial reports. The report describes the actions under way to bring these systems into conformance with federal financial management system requirements. These improvement efforts were also incorporated into the DoD Financial Management Improvement Plan. All material weaknesses disclosed by our audit were reported in either the Air Force, DFAS-Denver, or DFAS Headquarters Statement of Assurance for FY 1999.

Statements of Federal Financial Accounting Standards

For FY 1999, the financial management systems that support the Air Force did not substantially comply with federal accounting standards. In addition to the issues disclosed above, we identified the following departures from the SFFAS requirements.

a. Consumption Accounting. Air Force logistics personnel had not fully implemented the consumption method of accounting to recognize all inventory and related property expenses, as required by SFFAS Number 3, Accounting for Inventory and Related Property, 27 October 1993. The Air Force cannot use the consumption method because its computer systems were designed for inventory control purposes rather than financial accounting purposes. Therefore, the Air Force systems and processes prevent accounting personnel from determining whether the changes in value between accounting periods resulted from expenses relating to operating materials and supplies or from purchases, issues, and price changes. The DoD has initiated action to move to the consumption method of accounting in future years except in those cases that meet the requirement for the purchase method as defined in SFFAS Number 3. (Draft Report of Audit 99053003)

b. Cost Accounting. As we reported last year, Air Force and DFAS personnel did not prepare the Statement of Net Cost in full conformance with SFFAS Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, 31 July 1995. Deviations from the standard occurred in the areas of reporting program costs and reporting by responsibility segments. Air Force and DFAS management disagreed with our audit results last year and did not change the way they prepared the Statement of Net Cost for FY 1999. We forwarded both issues to the DoD Inspector General for resolution, but neither issue was resolved at the time of this report.

c. Construction-In-Progress. Air Force real property personnel did not always comply with Federal recognition requirements in accounting for real property. Specifically, real property personnel did not capitalize facilities at the time they were placed in service at 46 of 99 locations as directed by SFFAS Number 6, Accounting for Property, Plant and Equipment, 30 November 1995. Consequently, at least 511 facilities or projects valued at $100,000 or more, with a total value of approximately $781 million, were not recorded in the real property records and may not be recorded in the FY 1999 consolidated financial statements. (Draft Report of Audit 99053006)

Objective, Scope, and Methodology

Management's responsibilities are to:

- Prepare the annual financial statements in conformity with applicable accounting principles.
- Establish and maintain internal controls and systems to provide reasonable assurance that the broad control objectives of the FMFIA are met.
- Implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.
- Comply with other applicable laws and regulations.

Air Force Audit Agency responsibilities are to:

- Plan and perform an audit to obtain reasonable assurance about whether the principal financial statements are reliable (free of material misstatement) and presented fairly in conformity with Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, and applicable accounting principals.
- Obtain reasonable assurance about whether relevant management internal controls are in place and operating effectively.
- Test management's compliance with selected provisions of laws and regulations and perform limited procedures to test the consistency of other information presented with the consolidated financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements.
- Assessed the accounting principles used and significant estimates made by management.
- Evaluated the overall presentation of the financial statements.
- Tested compliance with selected provisions of laws and regulations.

- Obtained sufficient evidence from our tests to support our assessment of internal controls.

- Performed the procedures described in the Codification of Statements on Auditing Standards, AU Section 558, Required Supplementary Information, as they apply to the reporting of deferred maintenance.

- Selectively tested evidence supporting additions, deletions, and disclosures in the Required Supplementary Stewardship Information.

- Followed up on previously reported deficiencies.

In reviewing the Air Force consolidated financial statements, we evaluated internal controls to determine the reliability of financial and performance reporting related to the principal statements, accompanying footnotes, and the Overview of the Reporting Entity, including performance measures.

In the area of financial reporting, we determined whether Air Force and DFAS personnel properly recorded, processed, and summarized transactions to permit the preparation of financial statements in accordance with federal accounting standards. We also evaluated the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; obtained an understanding of the design of internal controls; determined whether the controls were in operation; assessed control risk; and tested the controls.

With respect to information in the Overview of the Reporting Entity, we determined whether the information presented was materially consistent with the information presented in the Principle Statements and accompanying footnotes. In the area of performance measures, we determined whether Air Force personnel properly recorded, processed, and summarized transactions and other data that support performance measures included in the overview accompanying the Air Force consolidated financial statements. We obtained an understanding of the design of internal controls related to the existence and completeness assertions.

We accomplished the audit from January to December 1999 at the Office of the Assistant Secretary of the Air Force, Financial Management and Comptroller; DFAS locations (DFAS centers and DFAS operating locations); HQ Air Force Materiel Command; and Air Force active duty units. We listed specific locations in the individual audit reports. We completed audit field work in February 2000 and provided a draft report to management in February 2000.

Summary of Prior Audit Coverage

The General Accounting Office (GAO), Inspector General, Department of Defense (IG, DoD), and the Air Force Audit Agency (AFAA), have conducted multiple reviews related to financial management issues. Last year, we issued a disclaimer on the FY 1998 Air Force consolidated financial statements. GAO reports can be accessed over the Internet at http://www.gao.gov, IG, DoD reports can be accessed at http://www.dodig.osd.mil, and AFAA reports can be accessed at http://www.afaa.hq.af.mil.

We appreciate the cooperation and courtesies extended to our auditors.

Jackie R Crawford

JACKIE R. CRAWFORD
The Auditor General

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office Of The Assistant Secretary

0 7 FEB 2000

MEMORANDUM FOR SAF/AG

FROM: SAF/FM

SUBJECT: Management Comments to the Air Force Audit Agency (AFAA) Draft Report of Audit, Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements (Project 99053002)

We appreciate the opportunity to review and comment on this report. Since the underlying audit reports supporting this opinion report have not yet been provided for our review, our comments on this report are limited. Upon reviewing the underlying reports, we may request modifications to the findings and recommendations contained therein, which, in turn, may affect your presentations in this opinion report.

We acknowledge that you are unable to express an opinion on the principal statements due to underlying uncertainties regarding the amounts reported. As you pointed out, in the accompanying footnotes to those statements we identified many of the underlying causes for these uncertainties. Recognizing the challenges presented by these problems, we are working aggressively with you, the Defense Finance and Accounting Service (DFAS), and other Air Force functional communities to identify the extent of the problems and develop and implement plans for their correction. As you indicated in this report, many of these initiatives are well under way and we feel that significant progress is being made. Additionally, we are actively supporting the implementation strategies as defined by the Office of the Under Secretary of Defense (Comptroller), which address areas such as real and personal property valuation and environmental restoration costs.

The Air Force remains committed to improving our financial management processes and the associated financial management systems as quickly as possible. We appreciate your help in identifying the needed improvements, and we will continue to work with you, DFAS, and other functional groups to achieve positive audit results.

Thanks for all your efforts! Jackie. Keep trying! Bob

Robert F Hale

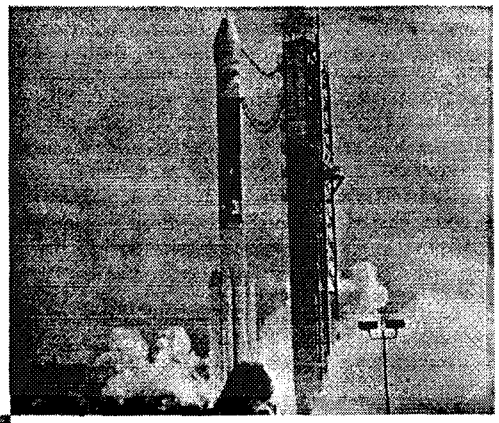
ROBERT F. HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

This Page Intentionally Left Blank

UNITED STATES AIR FORCE

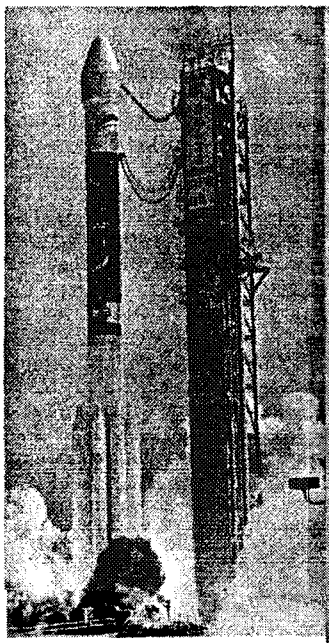
ANNUAL FINANCIAL STATEMENT

GENERAL FUNDS



FISCAL YEAR 1999

[TABLE OF CONTENTS]



Message from the Secretary of the Air Force 2

Message from the Assistant Secretary of the Air Force, Financial Management and Comptroller . . . 3

Overview

Foundations . . . 4

Air Force in Action '99 . . . 5

Air Force In Action 2000 & Beyond . . . 8

Air Force Resources and Organizations . . . 11

Financial Discussion and Analysis . . . 25

Financial Management Reforms/Initiatives . . . 38

New World—New Ways . . . 47

Principal Statements . . . 49

Footnotes to the Principal Statements . . . 67

Required Supplementary Stewardship Information . . . 103

Required Supplementary Information . . . 115

Audit Opinion . . . 127

"Operation ALLIED FORCE in the skies over Kosovo illustrated that air superiority is the foundation for victory on land, at sea, and in the air."

F Whitten Peters,
Secretary of the Air Force

MESSAGE FROM THE SECRETARY OF THE AIR FORCE

F. WHITTEN PETERS

SECRETARY OF THE AIR FORCE
WASHINGTON

February 2000

Message from the Secretary of the Air Force

Fiscal Year 1999 was a challenging year for the United States Air Force. We participated in or led numerous military operations, most notably the successful Operation Allied Force in Kosovo. In that operation the Air Force fought and won the equivalent of a major theater war without a single combat casualty We also worked to sustain the capabilities of our Air Force despite significant challenges associated with recruiting and retaining key personnel, maintaining an aging fleet of aircraft, and modernizing our equipment We prepared to implement a major new organization within the Air Force. Our new Expeditionary Aerospace Forces will continue to meet combat requirements in a timely, responsive fashion, while also providing our people with more predictable deployment schedules

Meeting these many challenges requires resources In FY99 the Air Force budget amounted to about $67 billion. Consistent with the requirements of the Chief Financial Officers Act, this statement documents how we spent the funds devoted to our general fund activities. The statement also briefly reviews selected performance measures established as part of the Government Performance and Results Act and compares the results for FY99 to our goals for that year

In order to make effective use of our budget dollars, the Air Force must remain a leader in financial reform In FY99 we made substantial progress toward achieving auditable financial statements We implemented improved internal controls to reduce the chance of financial fraud. We put in place guidelines for the professional development of our financial managers These guidelines are designed to insure that our financial management workforce continues to be well trained despite rapidly changing demands.

We must always use financial and other resources effectively if we are to continue to dominate the aerospace medium As we enter the new millennium, our mission remains: to defend the United States through control and exploitation of air and space

2 UNITED STATES AIR FORCE FY 1999 FINANCIAL STATEMENT

MESSAGE FROM THE ASSISTANT SECRETARY OF THE AIR FORCE FINANCIAL MANAGEMENT AND COMPTROLLER

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1130

OFFICE OF THE ASSISTANT SECRETARY

February 2000

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

I am pleased to present the Air Force General Funds financial statements for Fiscal Year 1999. These statements fulfill the requirements of the Chief Financial Officers Act and portions of the requirements of the Government Performance and Results Act

The statements document how the Air Force spent the $67 billion of budget authority appropriated to us in FY99. In addition, this document briefly reviews our FY99 performance goals in light of actual performance. The Air Force **succeeded in meeting its operational commitments** in FY99, achieving notable success during Operation Allied Force in the Balkans. However, **we did not meet our target performance** on a number of important measures in FY99 including recruiting, retention, and readiness. As the discussion in these statements indicates, we are redirecting our budgetary resources to improve our performance in these key areas

The **Air Force did make progress in improving financial management** in FY99, though there is much more to do. Achieving auditable financial statement is one of our key goals. In FY99 we instituted a specific plan to use our tri-annual review of obligations to remedy shortcomings in documentation for older budget obligations, thereby addressing one of the key remaining audit problems with our budgetary statement for general funds We also verified that our real property data is auditable and instituted efforts to achieve auditable data for personal property. We made changes in our internal controls designed to minimize the chances of financial fraud. To insure that our highly trained financial workforce remains capable and adapts to new requirements, we instituted guidelines for the professional development of our key personnel The guidelines cover areas such as experience, general and technical education, and continuing professional education We also made progress in improving some of our financial "feeder" systems that provide data to the main accounting systems. We expect that two of our major feeder systems will be assessed as compliant with the Chief Financial Officers Act this year

The Air Force takes its responsibility for stewardship of the public funds seriously. We are therefore strongly committed to improvement in all aspects of financial management

Robert F. Hale

ROBERT F. HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

FOUNDATIONS

Mission

To defend the United States through control and exploitation of air and space

Vision

Air Force people building the world's most respected Aerospace force—global power and reach for America

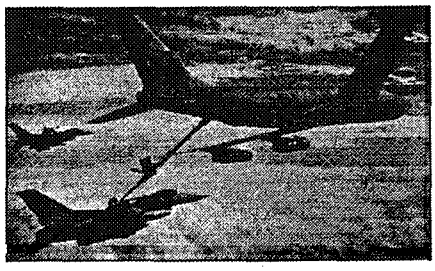
Core Values

- ▲ **Integrity First**
- ▲ **Service Before Self**
- ▲ **Excellence In All We Do**

Core Competencies

- ▲ **Air and Space Superiority**
- ▲ **Global Attack**
- ▲ **Rapid Global Mobility**
- ▲ **Precision Engagement**
- ▲ **Information Superiority**
- ▲ **Agile Combat Support**

One Force,
One Family...



" The moral underpinnings of leadership are so important to us. In the Air Force, that means our core values of integrity first, service before self and excellence in all we do..."

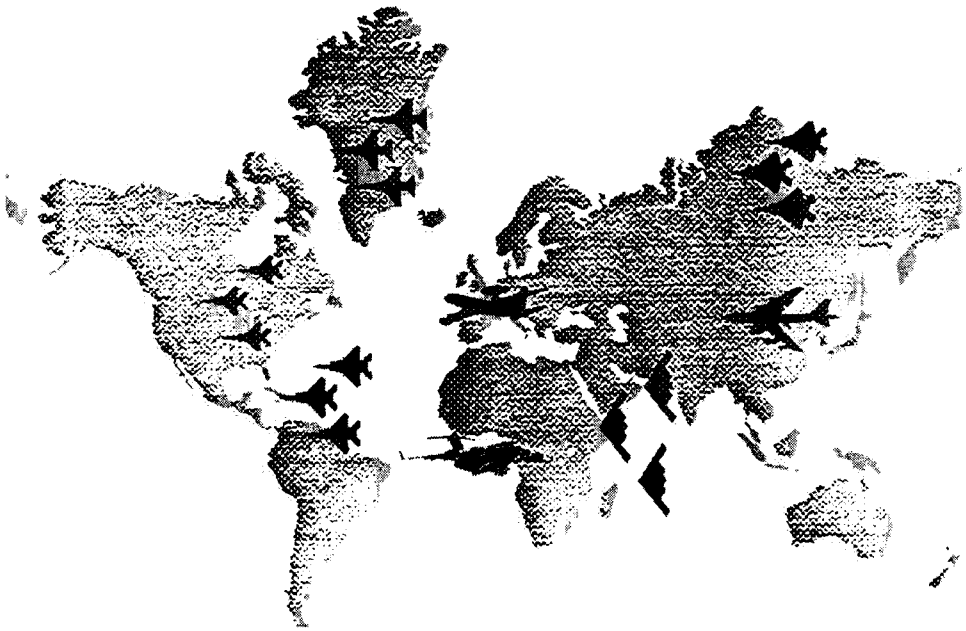
Gen Michael E Ryan,
Chief of Staff, USAF

AIR FORCE IN ACTION '99

During the past year the Air Force has responded to a large number of crises and contingencies in a substantial, significant and successful way The Kosovo operation was the most notable Together with related operations, it involved forces equivalent to those of a major theater operation Other operations included those in Iraq, contingency operations, and humanitarian actions at home and around the globe.

"...these successes have much, much more to do with people than equipment—our Air Force members have literally and figuratively served above and beyond."

General Michael E Ryan
Chief of Staff, USAF



AIR FORCE IN ACTION '99

Bombs on Target

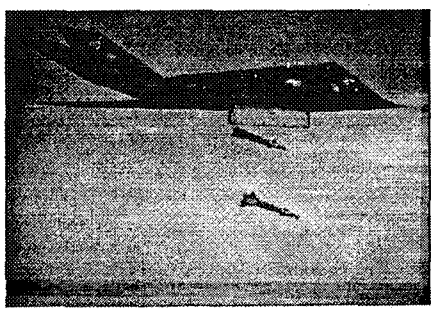
Allied Force – As we were recovering our forces from Operation Desert Fox, Yugoslav's president Milosevic's actions in Kosovo started to pose a serious threat to stability in the Balkans NATO quickly recognized that his actions, if not stopped quickly would completely destabilize this historically "tinder-box" region, with possible serious ramifications throughout Europe Not seeing the need for ground forces at this juncture, NATO turned to air power – a massive application of Aerospace Force

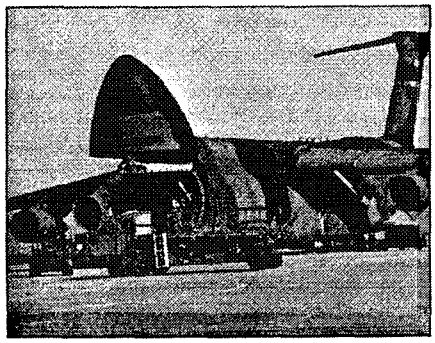
Operation Desert Fox – In November 1998 we again increased our forces in the Persian Gulf area to nearly 350 aircraft and 10 000 people. This was in response to steadily increasing Iraqi violations of U N. resolutions One month later we unleashed that potent force during Operation Desert Fox. American and British forces attacked about 100 targets over four nights, concentrating on military targets while taking every possible effort to avoid collateral damage

Operation Northern/Southern Watch – The Air Force continues to fly extensive sorties as part of Operation Northern/Southern Watch. The service is constantly patrolling no fly zones in northern and southern IRAQ in support of U N. resolutions subsequent to the Gulf War There have been numerous instances involving use of force in these operations.

"The size of the operation was impressive. Operation Allied Force, combined with our other contingency deployments was bigger than our efforts during Desert Storm, or for that matter, Vietnam."

General Michael E Ryan
Chief of Staff, USAF





Other NATO support – The U S. Air Force did not hesitate in its full support of the NATO obligations:

- The Air Force deployed more than 17,000 people and 500 aircraft
- It flew more than 11,000 aircraft sorties moving hundreds of millions of pounds of cargo
- Air Force refuelers flew 7,000 sorties – off loading more than 300 million pounds of fuel
- The Air Force operated from five fixed and about 24 expeditionary bases throughout Europe including locations in Hungary, France, Crete, Spain and other NATO countries
- Front line assets were used, the F-117, B-1B and for the first time in combat the stealthy B-2 bomber

These extensive assets were used in a way that took full advantage of the United States capabilities in space, and its cutting edge technological

lead in communications and intelligence gathering. The Air Force had space support personnel in theater and used an unprecedented amount of data that was fused from our space based and airborne assets. We also "reached back" to information centers throughout the world to provide virtually real time actionable knowledge for the front line commanders. Our new satellite – guided weapons – JDAM (joint direct attack munitions) and JSOW (joint standoff weapon) worked as advertised Our logistics systems worked.

Satellite communication terminals were set up in the mud of the operational theater. Spare parts were delivered where they were needed, usually within two days.

This also was a Total Force effort. The reserve component provided 40 percent of our deployed KC-135 force and a quarter of our A-10 force. Five thousand reservists were called up, however many more volunteered

In short, the Air Force held nothing back – and when the air war reached downtown Belgrade, Milosevic capitulated to NATO's terms. It was a great victory for NATO, the United States, and for aerospace power. A victory that was made more remarkable by the fact that in flying 38,000 sorties not one fatal casualty was suffered

Stabilizing World Situations

In addition to putting bombs on target in essentially a war like environment, the Air Force is engaged in missions that are aimed at preventing real war situations from arising For example: In September of this year the Air Force deployed about 90 people to Australia to support Operation Stabilize The Air Force is providing logistical support mainly through C-130 sorties for the U N peacekeeping operation in East Timor. In addition the Air Force is also flying food and other supplies to tens of thousands of refugees in both East and West Timor

Counterdrug/Counterterrorism

The Air Force continues to play an important role assisting drug enforcement agencies. The Air Force orchestrates the use of airborne and ground based radar. The service also employs intelligence, surveillance, refueling and reconnaissance platforms to intercept and track smugglers far south of our borders. To combat terrorism, the Air Force created new vulnerability assessment teams and conducted 36 vulnerability assessments at air bases and operating locations around the globe. These teams provided immediate short-term solutions and long-range recommendations to protect Air Force personnel, their families, and other Air Force critical resources

> "We gave our forces a very difficult job to execute, and they performed it with great speed and also with great skill."
>
> William S Cohen
> Secretary of Defense

Humanitarian

The Air Force continues to respond to humanitarian needs around the globe. The United States, along with the other services, deployed to Tirana, the capital of Albania, in support of Operation Shining Hope – an international effort to feed cloth and shelter hundreds of thousands of Albanian refugees who were displaced by the civil conflict in Kosovo Throughout the year the Air Force went to such diverse places as Nicaragua and El Salvador in the wake of Hurricane Mitch The Air Force also played a key humanitarian role here at home. When floods devastated North Carolina, the 920th Rescue Group flew 10 to 12 hours a night for three consecutive nights helping to save more than 300 people stranded by the floods.

From delivering medical equipment to the South Pole in the Antarctic winter, to airlifting specially trained dolphins to Lithuania to find mines on the floor of the Baltic Sea, Air Force men and women are always ready to help anywhere, anytime, in any way.

AIR FORCE IN ACTION 2000 AND BEYOND

The world is changing – not in a steady evolutionary way but in quantum jumps The nation does not have the luxury of waiting for change to happen but must anticipate new ways of doing things that were just dreams last night, but are reality the next morning The national military strategy must be one of looking forward far enough to be able to shape the nature of change – not just to react to it. The Air Force is always ready to try new ways of doing things – it anticipates change before it actually happens.

Expeditionary Air Force

The Air Force has anticipated the "New World" of the 21st Century and is already changing the way it will perform its mission – a New World demands a new way. The Air Force will reorganize into ten operationally linked, but geographically separate air expeditionary forces (AEF). Each of these forces will have a full range of aerospace capabilities provided by active and reserve personnel, as well as air-breathing and space-based weapon systems, which will provide U S. combatant commanders maximum warfighting capability. At any one time, two of these forces will be ready to respond instantly anywhere in the world, serving on alert for 90 days on a 15-month cycle Each AEF will include approximately 175 diverse mission aircraft and about 20 000 people

> "EAF... is not just one event. It is a major journey for the Air Force. It is a completely different way of looking at how we do our business."
>
> General Michael E Ryan
> Chief of Staff, USAF

These modular forces will be organized according to the new Expeditionary Aerospace Force (EAF) concept This reorganization will be accomplished without restructuring the baseline Air Force, which will remain essentially the same.

The EAF makes sense because it provides for sizing, shaping and equipping the force for long term sustained peacetime operations across the spectrum of warfare – even though the Air Force cannot know now precisely what those operations will be. We are shaping change – not reacting to it. The EAF will give field commanders a wide array of support consisting of:

- Rapidly responsive forces
- Lighter, leaner and more lethal forces
- Forces tailored for specific needs
- More stable, predictable and available forces
- Maximum integration of the Total Force (Active duty, Air National Guard and Air Force Reserve)
- An institutionalized expeditionary culture

The EAF also has a significant positive impact on the men and women of the Air Force. It will stabilize and regularize deployments for contingency operations It will enable our people to have a personal life, whether married or single, to participate in community affairs and to pursue additional education This should have a positive effect on the Air Force's retention challenges by giving our people a reasonable quality of life during peacetime Implementation of EAF started 1 October 1999.

F-22 Raptor

The United States has become the preeminent aerospace power in the world because it has been ready to fight the next war – not the last war The assumption is growing that this dominance of the aerospace medium is some sort of birthright It is not it has to be earned over and over again

While we currently have air dominance with the F-15 but at least six other aircraft – among them the Russian SU-35 and the French Mirage 2000 – threaten to surpass the aging F-15 Without the F-22 the U S. runs the risk of letting our air superiority degrade to the point where the Air Force will be forced to fight not the next war but the last war over again.

The F-22 is a critical enabler for everything else we are doing You cannot put modern assets like JSTARS (Joint Surveillance and Target Attack Radar System) near a battlefield if the enemy can shoot it down Our high-value intelligence, surveillance, and reconnaissance assets would be at great risk if the Air Force did not possess absolute air dominance The F-22 is the only platform the Air Force has that will assure this level of dominance for the next 25 to 30 years

> "The air superiority provided by the Raptor will insure victory in future battles and preserve the lives of countless American soldiers, sailors, airmen and Marines."
>
> F Whitten Peters,
> Secretary of the Air Force

C-17 Globemaster

The Air Force mobility assets are integral to the daily execution of our National Security Strategy (NSS). Whether employing on-scene Air Expeditionary Wings or deploying contingency forces in response to a crisis, mobility assets make the difference – in speed and in stamina. While there are many airlift assets that make up this mobility mix, the C-17's "anything – anywhere – anytime" capability make it the foundation upon which any mobility bridge must be built The Air Force continually seeks to upgrade the C-17's capability (e.g developing a new air drop system that increases its cargo air drop capacity by 266 percent and reduces, by as much as 30%, the total number of C-17 aircraft required for the Army's strategic brigade airdrop).

However, fine-tuning of this sort will not reduce the need for large numbers of these planes The Air Force needs to procure the full complement of required C-17's to assure that the nation has the ability to rapidly project its power on a global scale, now and in the future.

Space Systems

Space is the ultimate high ground It enables precision in delivering weapons on target surveillance to know exactly where the targets are, and communication to know when this force should be applied Right now the United States is the preeminent presence in space and the United States Air Force is the primary agent that enables the nation to retain this preeminence

Control of space is absolutely essential if the United States is to continue a posture of "global reach, global power."

The use of space assets to project this global power to prevent localized hostilities from widening into a larger conflict was brought

AIR FORCE IN ACTION 2000 AND BEYOND

out clearly during Operation Allied Force in the Balkans

Control and exploitation of space is the future of warfare. The Global Positioning System (GPS), a constellation of 27 satellites, guides precision weapons such as joint direct attack munitions, conventional air-launched cruise missiles, and Tomahawk missiles launched from aircraft and ships "Real-time targeting" showed the power of putting air and space together

The United States needs to deny its potential adversaries similar space capability. Denial does not necessarily mean the destruction of space assets but rather the tactical denial, by jamming or other means, to our adversaries of the full use of space assets

In addition to using space as a force multiplier it is also imperative that the high ground of space be used defensively. The Defense Satellite Program (DSP) currently provides key warning However, this system is aging and needs to be replaced in the near future The answer is the Space Based Infrared System (SBIRS) The system will give our nation a robust missile defense system by providing missile warning, missile defense, and technical intelligence and battle characterization

The system is divided into two components, SBIRS High and SBIRS Low. SBIRS High will replace the aging DSP system and SBIRS Low will provide warning of potential threats in tactical operations

Another capability that is urgently needed is the ability to launch new/replacement satellites quickly and cheaply. The answer to this challenge is the Evolved Expendable Launch Vehicle (EELV). By a unique dual-use procurement strategy the Air Force is partnering with industry to meet military, civil and commercial requirements while at the same time stimulating the nation's launch capability. The EELV program, expected to be operational in 2002, will replace the current fleet of medium and heavy launch systems (Delta, Atlas, and Titan) with two modular families of launch vehicles The EELV is poised to provide more affordable and reliable access to space for America.

The environment of space is becoming ever more important in our nation's role in the world and its own defense. The Air Force is the lead player in establishing and maintaining American primacy in space It is reacting to the changing environment by anticipating and shaping this change to benefit our nation and our Allies. The Air Force is ready for 2000 and beyond

> "We must use the best systems that we have available for each task, without regard to whether that system works in the air or in space, and fuse them into an integrated whole using the information systems that we are building today and tomorrow."
>
> F Whitten Peters,
> Secretary of the Air Force

AIR FORCE RESOURCES AND ORGANIZATIONS

"People continue to be our most vital resource – they are the most critical component of readiness."

General Michael E Ryan
Chief of Staff, USAF

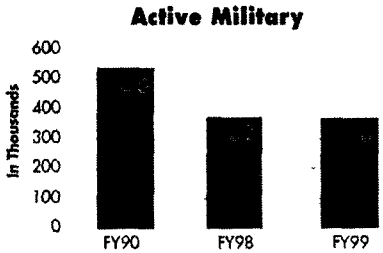
The stated mission of the Air Force is to defend the United States through control and exploitation of air and space To accomplish this mission by building the world's most respected aerospace force – global power and reach for America – the United States Air Force needs:

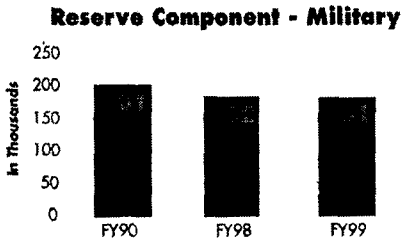
- **People** – trained motivated and dedicated
- **Places** – a network of bases that reflect the change from "global containment" to "global engagement"
- **Systems** – modern weapon platforms that integrate air and space assets into a formidable application of force.

PEOPLE

Aerospace power has been shown to be the foundation for victory on land at sea and in the air. The foundation of this foundation is people

The data in the following charts clearly show that this resource is shrinking and is also changing in composition

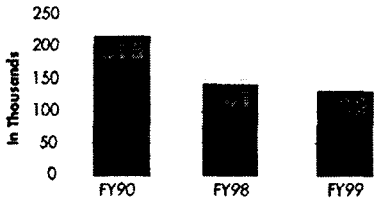




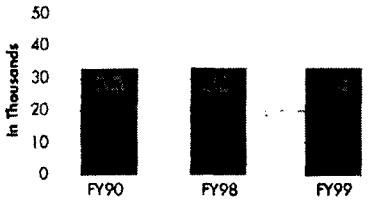
While the decrease in military personnel has leveled off in the past few years, the decline in active military is about 32% from FY 1990 levels and the reserve component decline, even with many added taskings, is still a significant 10% This shift of missions to the reserve component is highlighted by the observation that in FY 1990 27% of the total uniformed military were in the reserve component In FY 1999 33% are in the reserve component

AIR FORCE RESOURCES AND ORGANIZATIONS

Active Civilian



Reserve Component - Civilian Technicians



These same trends are generally reflected in the civilian segment of the Air Force. Civilians in the active Air Force have declined by 39% since FY 1990 and even though the number of civilian technicians in the reserve component has remained constant, it must be kept in mind that the reserve components' taskings have increased greatly. Also, the number of civilians in the reserve component has increased from 13% to 20% of the entire combined civilian work force.

Also compounding manning problems is the increasing seniority of the civilian work force Due to personnel drawdowns over the past 10 years new-hires have been extremely limited and many experienced employees have gone on to other jobs or taken early retirement. As a result, up to 80 percent of the Air Force work force at many commands is eligible to retire in the next five years and there are too few experienced workers to fill the shoes of those who leave. The Air Force is taking steps to reshape the civilian force to ensure that a properly sized pool of experienced personnel with current skills are available in the future to fill key positions

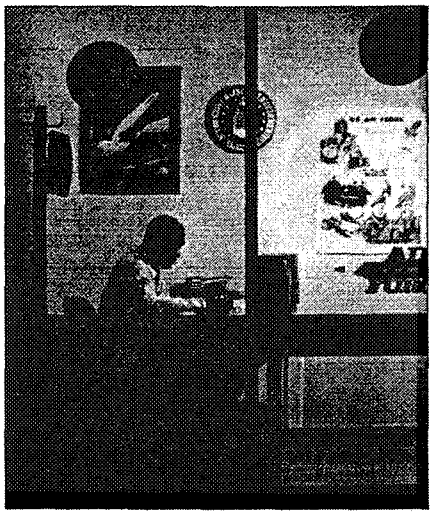
Recruit, Train and Retain

Anytime an organization reduces its strength by one-third it is obvious that a radically new way of doing business must arise Prime importance must be placed on the quality of people because we simply cannot accept mediocrity. All of our people need to be achievers who are led by talented achievers To do this the Air Force needs to recruit, train and retain.

Recruit

The Air Force ended FY 1999 about 10,000 men and women short. This situation exists because both retention and recruiting are down. For the first time in 20 years the Air Force missed its recruiting goals.

The answer to this problem is not a lowering of standards, but an intensification of efforts to get the message out as to what benefits the Air Force provides a young man or woman These benefits are not just material ones like pay, travel, money for college, etc , but the development of core character values that will stay with and enhance an individual's life, whether he or she serves four or twenty years.



To get this message out the Air Force will:

- Bring the number of recruiters up to full strength It did not fill all recruiter authorizations while the recruiting goal was being sought – this was a mistake
- Institute aggressive advertising.
- Keep pace in cyberspace by introducing an innovative, artistically designed Web site which provides a better understanding of the Air Force overall – effectively reaching the computer age generation.

The Air Force is confident that if it gets its message across to the nation's young men and women they will respond positively.

Train

Getting good people to join the Air Force is not enough – they need to be trained so that they can do the best job they are capable of doing

The first step in this training process is to insure that from the start our young men and women are trained the same way they will perform their duties together.

In addition to training together, this training needs to reflect what real life will be like The Air Force has just included a "warrior week" as part of basic training The Air Force must make sure that its young men and women come out of basic military training knowing how to put up tents, eat MREs (meals ready-to-eat), perform buddy care and first aid, and know-how to protect themselves and their buddies The Air Force needs to make sure all our enlisted men and women understand what it is like to be forward deployed and how to operate our systems that support forward deployments.

Another aspect of changing the way the Air Force trains is the implementation of the Aerospace Basic Course at Maxwell Air Force Base, AL. This course started about a year ago and is intended to teach each one of our civilian interns and our young officers from every commissioning source, how manned and unmanned air and space systems are intended to work together and how the Air Force needs to create a system of systems to bring aerospace power to the 21st century.

> " ... we need to ensure that each of our men and women have an opportunity to understand how air and space systems fit together to do the mission ..."
>
> F Whitten Peters,
> Secretary of the Air Force

Also, at the U.S. Air Force Academy, the faculty has started a program called "global engagement" It is an effort to get each of the students – at the end of the first year – an opportunity to put up tents, eat MREs, and get some idea of what it takes to fuse air and space assets to run a modern campaign.

In short, the Air Force does not train to do things that it used to do but to do things that it does now and will do in the future

Retain

Once we get talented men and women on board and train them effectively, we have to retain a certain number of them for a number of years to have a truly efficient and productive force.

There are many factors that have caused retention problems over the past few years In addressing this retention problem, F. Whitten Peters, Secretary of the air Force, spelled out clearly what needs to be done when he said:

> *"We will never fix our retention problems until we can guarantee each and every one or our men and women a reasonable quality of life during peacetime. They should be able to raise a family, participate in community affairs, pursue additional education; in short, they should be able to have a personal life."*

A clear, understandable statement of an objective – but the leadership challenges are extraordinary.

Compensation

The first challenge is to keep military compensation competitive Senior leadership made this a top legislative priority for FY 2000. These efforts paid off handsomely with the inclusion of the Compensation Triad in the FY 2000 National Defense Authorization Act (NDAA) The Triad contained significant improvements in the following areas:

- Pay Raise 2000: The 1 January 2000 pay raise of 4 8% is the largest since 1982 Future pay raises now will be set at the Employer's Cost Index (ECI) *plus* one-half percent rather than at ECI minus one-half percent as in past. This change will allow us to continue narrowing the pay gap between the military and the private sector
- Pay Table Reform (PTR): Effective 1 July 2000, PTR will put greater emphasis on performance relative to longevity. In other words, promotions will be weighted more heavily for pay increases than they had been in the past
- Retirement Restored: All members are now under a 50%-of-basic-pay formula for 20 years of service (YOS) with full inflation protection during retirement. Members joining on 1 Aug 1986 or later have the option of returning to the less generous Redux plan (40% multiplier and only partial inflation protection) in exchange for a $30,000 lump sum payment at 15 YOS Members opting for the bonus must agree to serve to at least 20 YOS

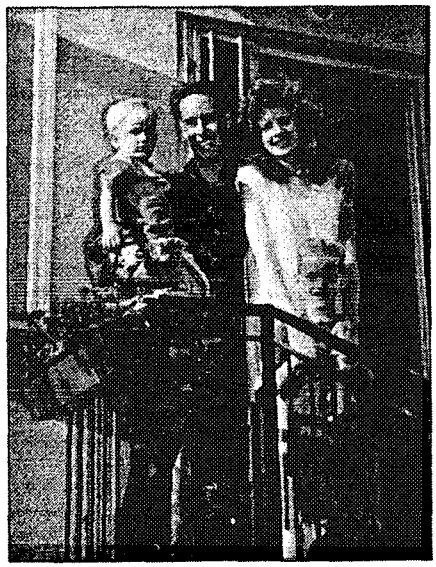
Stability

Another major leadership challenge is stability of the force, a lessening of the grinding Operations Tempo (OPTEMPO) that not only debilitates the strength and energy of the military members, but undermines the very foundations of the individuals personal life, whether married or not It is not so much that people have to deploy Sixty percent of the Air Force has come on board since 1990. To them the garrison way of life is just something that happened in the past – they are used to deploying to crisis hot spots. It is the way of life for which they signed up Problems arise when the feeling persists that they are always deployed and these deployments are random and appear to be unfairly apportioned

Air Force leadership has sought to meet this concern They restructured the way the Air Force *does business by the establishing the Expeditionary* Air Force (EAF). The concept (discussed in detail in the previous section) came about for two reasons: to make sure that the nation has ready, trained aerospace forces and to ensure our people get relief from the grinding OPTEMPO of today, even in a continuing turbulent world

Quality of Life

The Air Force continues to leverage quality of life programs to retain a quality force. This year saw the budget expand for Temporary Lodging Entitlement to enlisted personnel reporting to their first duty station; and for the first time ever, DoD implemented women, infant, and children benefits to families stationed overseas. The Service also accelerated the implementation of the Basic Allowance for Housing and the



Secretary of Defense recently announced a new housing initiative that will reduce a service members out of pocket housing expenses from an average of 19% to 15% in FY 2001 and eliminate the out of pocket expense by the end of the Future Year Defense Plan (FYDP). Further, the Air Force continued work on the 1+1 dormitory standard, and developed the Family Housing Master Plan With the high personnel tempo, family support is becoming more important As a result, steps are being taken to ensure TRICARE Prime enrollees have their own Primary Care Manager with guaranteed access standards for acute, routine and preventive appointments Other programs such as childcare and youth centers, deployed spouse outreach programs, surviving spouse casualty support, and family readiness continue to demonstrate the Air Force's commitment to its members and their families.

Pilot Retention

A special subset of the retention challenge is retaining our experienced pilots The United States Air Force boasts the worlds most efficient talented support force, combined with technologically superior, integrated aerospace systems. However, retention of skilled pilots is key to accomplishing operational mission At a cost of $6 million to train and season, a veteran pilot is the Air Force's most expensive personnel asset. Today the Air Force is over 1,200 pilots short In FY 1999, for every two new rookie pilots who walk in the door three veteran pilots walk out To minimize this "experience drain" and protect our combat capability, Air Force leadership has taken innovative steps, including scrutinizing pilot requirements increasing pilot production, managing Operations Tempo enhancing Quality of Life and increasing compensation and personnel programs

There is no one magic answer that will itself reduce or eliminate the pilot shortage or declining pilot retention. However, Air Force leadership is confident that the actions they are taking will help turn the tide and reinforce the foundation needed to protect the nation's combat capability now and into the future

Retention

The Air Force is directed to meet certain personnel end strength requirements on an annual basis in order to successfully carry out its mission as directed by Congress Accordingly, our need to retain a highly skilled force remains a top priority. The Air Force depends heavily on highly technical skills honed over years of experience; therefore, we seek to recruit the very best and retain them for a career. Initiatives incorporated in the FY 2000 NDAA will help combat declining retention rates These efforts will make continued service more attractive for many to stay in the Air Force We have implemented other incentives to eliminate the reasons our people leave the Air Force. We implemented the Expeditionary Aerospace Force concept, which will give our people more stability and predictability in their deployment schedules Whenever possible, we minimized our participation in exercises, and lowered the frequency of our operational readiness inspections In an effort to

> "Without those [Air Force] vital contributions, our military forces could not perform their missions anywhere in the world today, including the Balkans."
>
> William S Cohen
> Secretary of Defense

encourage the number of reenlistments needed in certain skills to sustain the career force objectives in those skills, we have more than doubled the number of specialties eligible for Selective Reenlistment Bonuses since 1995. On the civilian side to provide commanders with a state-of-the-art, sustainable civilian workforce capable of meeting tomorrow's challenges, we are working on managing our accessions with properly sized force renewal programs; expanding and targeting training and retraining; and influencing our separations through force shaping and buyouts and incentives We remain optimistic that these changes and improvements will renew our people's faith in our ability to provide the quality of life they deserve and reaffirm our commitment to recruit and retain a dedicated quality Air Force into the 21st century

Reserve Component

In addition to the dramatic decline in the military force since the end of the cold war, the other significant occurrence has been the shift of people and mission tasking from the active force side of the defense equation to the reserve component side, which consists of the Air Force Reserve Command and the Air National Guard. The reserve components are not just an "add-on" to the active force but an integral part of it – 42% of the mission oriented squadrons in the Total Air Force are in the reserve components. The vital role that reserve forces play in the post-Cold War environment is underscored by the fact that 55% of the total air refueling capability in the Air Force is in the Air National Guard and the Air Force Reserve.

During the recent Operation Allied Force, the Air Force Reserve and Air National Guard did in fact accomplish about half of all air refueling support for NATO operations.

In order to insure that the vital resources in the reserve components are used to maximum effect, the Air Force is actively studying how to better integrate Active, Guard and Reserve Forces in the daily operations of the Air Force. The interplay between active, reserve and civilians in creating a unified force can best be understood by General Michael E Ryan's (CSAF) statement:

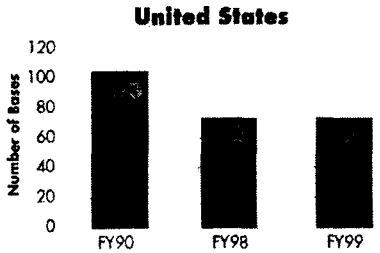
> *"Today there are thousands of Air Force people facing the toughest military missions – in Korea, in the Balkans and in the gulf. They are the best-equipped, best-trained and best-led forces on this globe. And the entire Air Force team – military and civilian, active duty, Guard and Reserve – are an integral part of that team, that force, that family ..our great Air Force."*

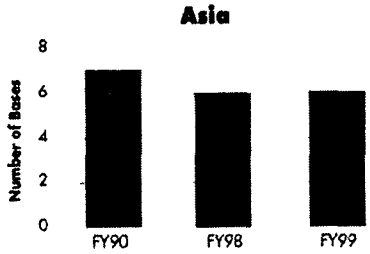
AIR FORCE RESOURCES AND ORGANIZATIONS

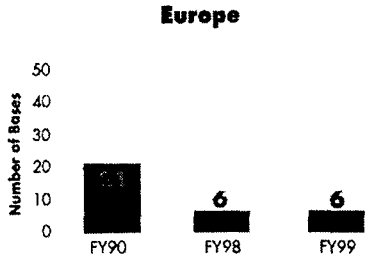
PLACES

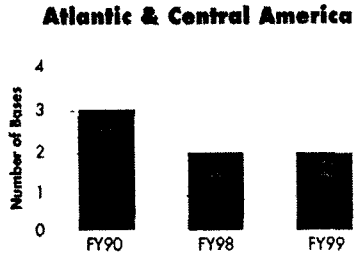
The dramatic decline in the number of Air Force installations world wide since the end of the cold war clearly shows how it has changed from a containment force to a deployment force. This is especially evident in the reduction of our bases in Europe by 70%. Overall the number of installations at home and abroad has dropped 35%, an impressive number, an impressive part of the peace dividend

Even given this significant drop in infrastructure future developments in the Air Force, establishment of the Expeditionary Air Force being one of them, indicate that another Base Realignment and Closure (BRAC) exercise is needed to further trim infrastructure so that additional savings can be applied to high priority items such as modernization.









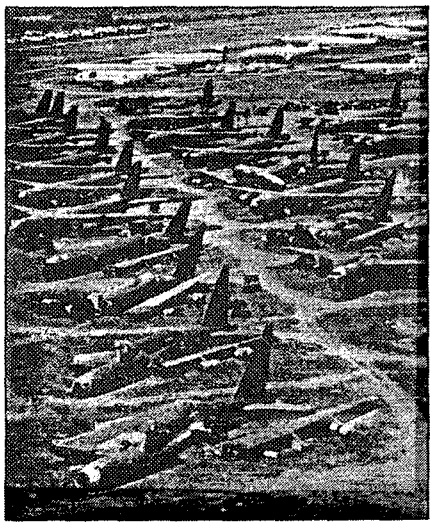
AIR FORCE RESOURCES AND ORGANIZATIONS

SYSTEMS

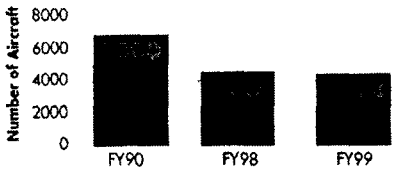
When the Air Force talks of weapon systems, it no longer means just airplanes. It means airplanes that are integrated with constellations of satellites using communications and information linkages that create a weapon platform of devastating force. However, just as we need state-of-the-art satellite constellations, we cannot let the air-breathing component of this weapons platform lapse into an outmoded configuration that fails to take full advantage of the nation's space superiority.

Aircraft

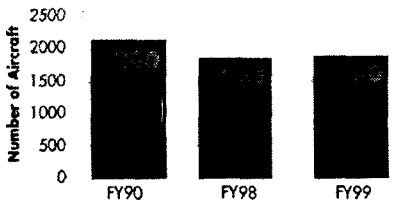
While the number of aircraft have decreased significantly in both the Active Force and the Reserve Component, it is not the number of aircraft that is today's challenge. The age of the Air Force's weapons systems is unprecedented. This year, the average age of our aircraft is 20 years and under current modernization plans this average age will increase to 30 years in 2015. The costs of maintaining this older equipment are growing. Fatigue, corrosion, and parts obsolescence are progressively driving up the costs of maintaining older planes and reducing overall equipment readiness. If the Air Force is to continue making readiness affordable, it must aggressively balance the cost of replacing weapons systems with continued modernization efforts. Also, it is not just support aircraft that are becoming old, but some of our primary war-fighters as well:



Active Forces



Reserve Guard Forces

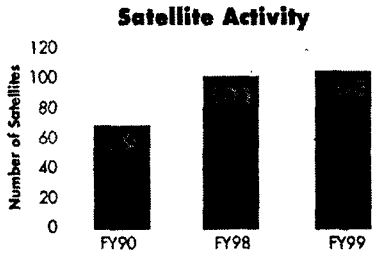


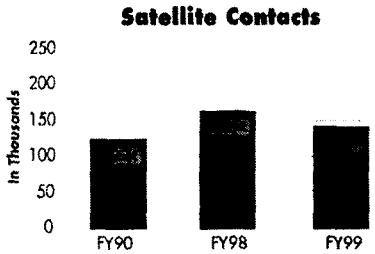
Weapon System	Average Age in Years (30 Sep 99)	Number of Aircraft
F-15	14	615
A-10	18	126
B-1	12	73
B-52	38	85
C-130	27	191
C-5	18	81

Any way you look at it, a technology imbalance is quickly developing. While information/communication technology is advancing at an exponential rate the airframe interfaces are of a different technological era.

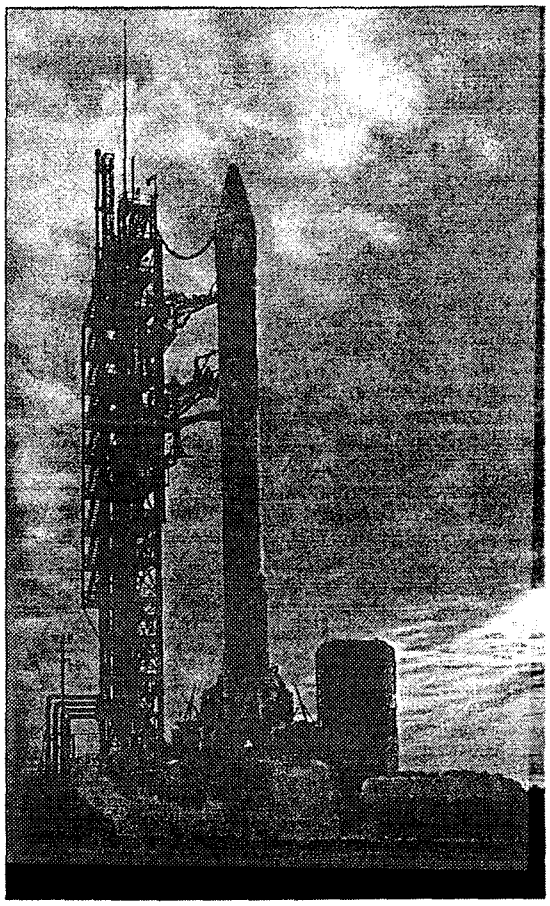
Satellites

The constellation of satellites is becoming more and more important in enabling the Air Force to perform its mission – air-breathing assets must be fully integrated with space assets to take full advantage of this synergy.





Note: Includes satellites controlled beyond the operational Air Force inventory, such as other DoD Allied, and research satellites A Number of DoD launches occurred from Vandenberg and Cape Canaveral in FY 1999



"You can not seriously discuss global presence, global reach and global force without placing that discussion in the context of space."

F. Whitten Peters,
Secretary of the Air Force

AIR FORCE RESOURCES AND ORGANIZATIONS

AIR FORCE ORGANIZATIONS

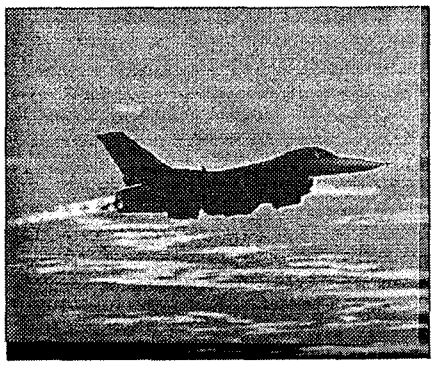
The command line of the Air Force flows from the President and the National Command Authority to the Secretary of Defense and to the Department of the Air Force

Major Air Commands are divided primarily between two types: operational and support.

Within the operational commands, the divisions are generally defined according to purpose or location (e.g., combat; movement of people and supplies; Pacific and European theaters) The support commands generally are organized according to function (e.g., logistic, support, or training) They are directly subordinate to HQ USAF.

Air Combat Command (ACC)

Total Command Personnel – 163,815
Commander – Gen John P. Jumper

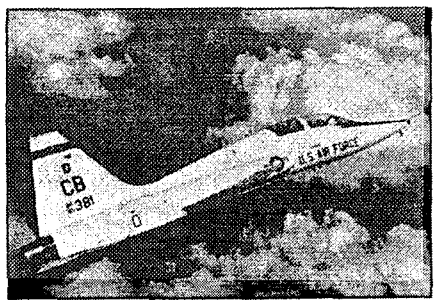


Mission

Air Combat Command is a global force provider It provides organized, trained, equipped, and combat-ready forces for rapid deployment to regional unified commanders, regardless of theater, and to the United States Strategic Command. ACC forces conduct offensive and defensive air operations (both tactical and strategic), reconnaissance, intelligence, electronic warfare air rescue missions, and information dominance.

Air Force Education and Training Command (AETC)

Total Command Personnel – 69,675
Commander – Gen. Lloyd W."Fig" Newton

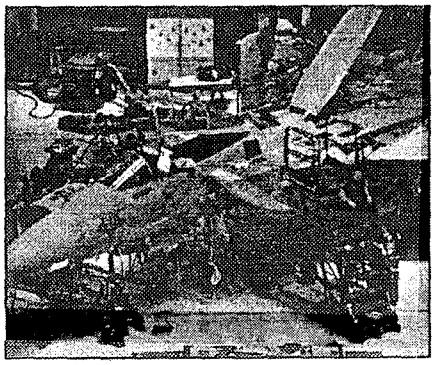


Mission

Air Education and Training Command recruits new people into the U S Air Force and provides them with military, technical and flying training as well as pre-commissioning, professional military and continuing education. After receiving basic training and prior to placement in Air Force jobs enlisted people are trained in a technical skill More than 1,350 active technical courses offer a wide variety of job skills for today's young adults During their careers in the Air Force, every officer and enlisted person receives education and training administered by the command

AIR FORCE RESOURCES AND ORGANIZATIONS

Air Force Materiel Command (AFMC)

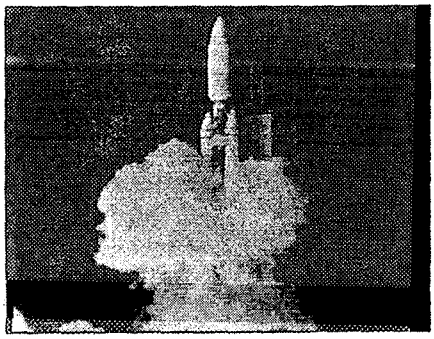


Total Command Personnel – 107,196
Commander – Gen. George T Babbitt, Jr.

Mission

Through integrated management of research, development, test acquisition and support, AFMC advances and uses technology to acquire and sustain superior systems in partnership with our customers and suppliers. AFMC performs continuous product and process improvement throughout the life cycle. As an integral part of the Air Force war-fighting team, AFMC contributes to affordable combat superiority, readiness and sustainability.

Air Force Space Command (AFSPC)

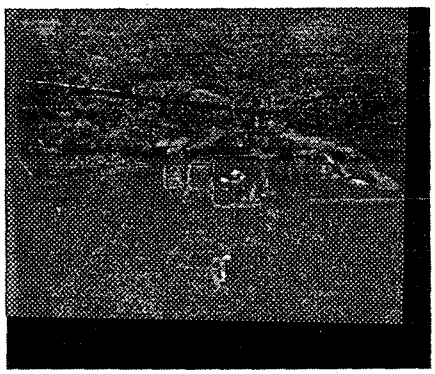


Total Command Personnel – 36,269
Commander – Gen. Ralph E. Eberhart

Mission

Air Force Space Command s mission is to protect the United States through the control and exploitation of space The command supports the warfighter by securing the space environment, and continuously improving its ability to protect and support combat forces. AFSPC has four primary mission areas: space force support, space control, space force enhancement and space force application

Air Force Special Operations Command (AFSOC)



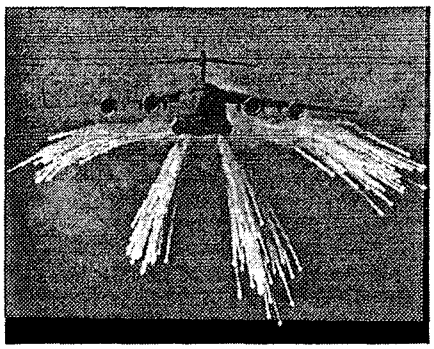
Total Command Personnel – 12,032
Commander – Maj Gen. Charles R. Holland

Mission

Air Force Special Operations Command is one of four components of the U S Special Operations Command, a unified combatant command at MacDill Air Force Base Fla The command provides Air Force Special Operations Forces (SOF) for worldwide deployment and assignment to regional unified commands. SOF principal missions are unconventional warfare, including direct action, special reconnaissance, foreign internal defense, combating terrorism, psychological operations, counter-proliferation, civil affairs, and information operations

AIR FORCE RESOURCES AND ORGANIZATIONS

Air Mobility Command (AMC)



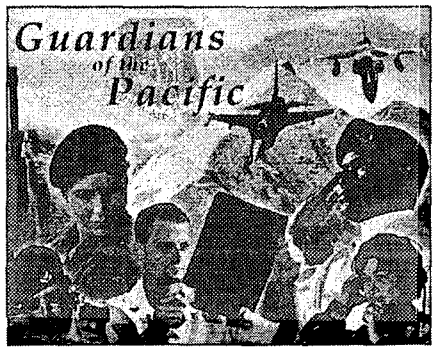
Total Command Personnel – 141,724
Commander – Gen. Charles T "Tony" Robertson, Jr.

Mission

The Air Mobility Team ..Responsive Global Reach for America Every Day

AMC's mission is to provide airlift, air refueling, special air mission, and aeromedical evacuation for U S. forces AMC also supplies forces to theater commands to support wartime tasking As the Air Force component of the United States Transportation Command, AMC is the single manager for air mobility

Pacific Air Forces (PACAF)



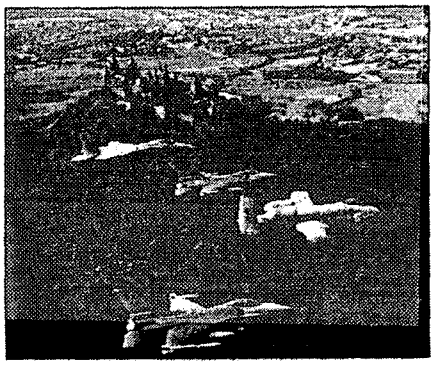
Total Command Personnel – 44,559
Commander – Gen. Patrick K Gamble

Mission

The mission of the Pacific Air Force is to plan, conduct, and coordinate offensive and defensive air operations in the Pacific and Asian theater. PACAF provides advice on the use of aerospace power throughout the theater and carries out missions as directed by the commander-in-chief of the U S Pacific Command As a major command, PACAF ensures the Air Force units in the region are properly trained, equipped, and organized to conduct tactical air operations. PACAF's area of responsibility extends from the west coast of the United States to the east coast of Africa, and from the Arctic to the Antarctic – more than 100 million square miles

AIR FORCE RESOURCES AND ORGANIZATIONS

United States Air Forces in Europe (USAFE)



Total Command Personnel – 32,516
Commander – Gen Gregory S. Martin

Mission

The United States Air Forces in Europe (USAFE) is a major command in the U. S. Air Force. provides air assets for NATO, and is the air component of the Joint European Command (EUCOM). USAFE is responsible for providing the joint force commander a rapidly deployable, expeditionary aerospace force capable of conducting the full spectrum of military operations. Expeditionary Aerospace Forces dominating our enemy .Controlling our environment...With high standards for life and security . Supporting the full spectrum of combat operations.

Air Force Reserve Command (AFRC)

Total Command Personnel – 77,320
Commander – Maj Gen James E. Sherrard III

Mission

The Air Force Reserve Command provides the total Air Force with highly prepared units and individual members in support of both Air Force and national objectives. By providing cost-effective options for the Air Force, the dedicated citizen airmen of the Air Force Reserve Command work to build the world's most respected air and space force The Air Force Reserve Command flies 12 different kinds of aircraft in 21 major mission areas and is also responsible for satellite and pilot training missions

AIR FORCE RESOURCES AND ORGANIZATIONS

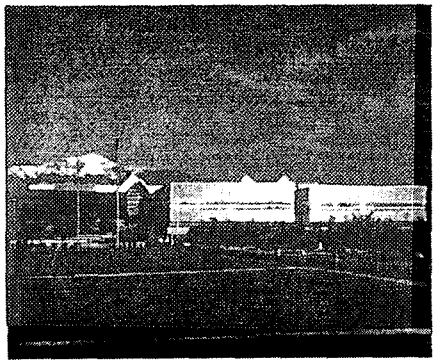
Air National Guard (ANG)

Total Command Personnel – 106,000
Commander – Maj Gen. Paul A Weaver, Jr.

Mission

The Air National Guard is comprised of 106,000 citizen soldiers with state as well as federal responsibilities The ANG has 88 flying units and 334 mission support units in all fifty states, 3 US territories and the District of Columbia With nearly 1,200 aircraft, the ANG performs 100% of the air sovereignty mission and contributes one-third of the fighters, almost half of the tactical airlift and air refueling aircraft, and 70% of the combat communications and theatre air control assets in the Total Force. By playing a key role in the Air Expeditionary Force, the ANG is no longer just a force in reserve.

Direct Reporting Units (DRUs) and Field Operating Agencies (FOAs)



Mission

Direct Reporting Units are directly responsible to HQ U. S Air Force. Because of their unique mission responsibilities, they operate independently of any separate operating agency or major air command They range in size from 8,000 military and civilian personnel and cadets at the Air Force Academy to 60 military and civilian personnel at the Air Force Doctrine Center at Maxwell AFB, AL

Mission

Field Operating Agencies carry out their responsibilities under the operational control of a functional manager at the HQ U.S Air Force level They range in size from 16,000 to less than 50 personnel assigned, and include such diverse agencies as Air Force Audit, Air Intelligence and Air Force Legal Services They perform their missions separately from the major air commands

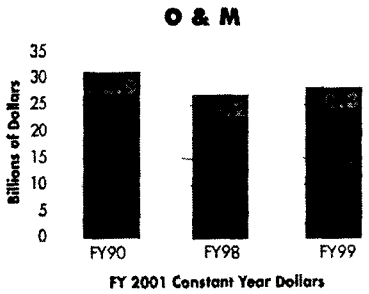
FINANCIAL DISCUSSION AND ANALYSIS

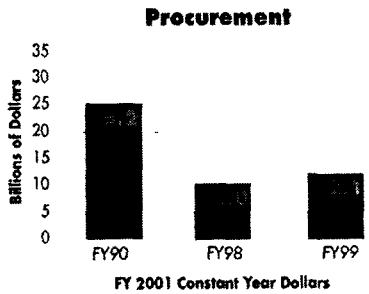
Fiscal year 1999 witnessed a leveling-off of the decline in budgetary purchasing power, and even some growth in actual dollars. The total Air Force budget amounted to $66.7 billion in budget authority for FY 1999 ($70.3B after adjustment to constant year FY 2001 dollars). That total includes added spending for Operation Allied Force in the Balkans and for other contingency operations. The budget approved by Congress for 2000 contains increases in actual dollars, and the President has indicated that he will seek increases in future budgets.

This more favorable budget outlook comes at a critical time for the Air Force. While forces have already been cut to levels consistent with future defense plans, the high operating tempo and overseas deployments that have characterized the post-Cold War period are driving up operating costs. Further cuts in investment funding, which was reduced sharply in the early 1990s, can no longer be sustained. In order to carry out current defense plans, the Air Force needs the increasing budgets that will soon occur.

THE BUDGET BY APPROPRIATION

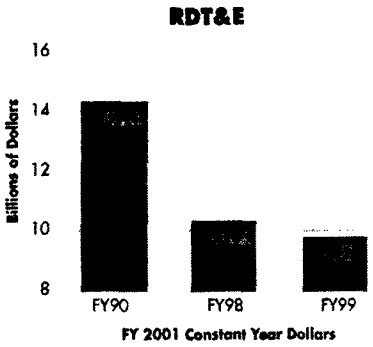
These trends in total budgetary authority are reflected in changes in the various components of the budget. There are six major appropriation categories plus Base Realignment and Closure (BRAC) that make up the Air Force FY 1999 budget of $70.3B (FY 2001 constant year dollars) in budget authority. Military Personnel (MILPERS) dollars finance the salary and benefits of uniformed personnel. Operations and Maintenance (O&M) pays the salaries and benefits of civilian employees, as well as other day-to-day operating costs, such as fuel and spare parts. Research, Development, Test and Evaluation (RDT&E) funds development of new weapons, and Procurement (PROC) finances their purchase. Military Construction (MILCON) pays for the construction of facilities. Military Family Housing (MFH) provides for the operation, maintenance and construction of housing units. In constant dollars, four of the six appropriations declined between 1998 and 1999, but by modest amounts. Only funding for O&M and Procurement grew in 1999, but growth in these appropriations was substantial.

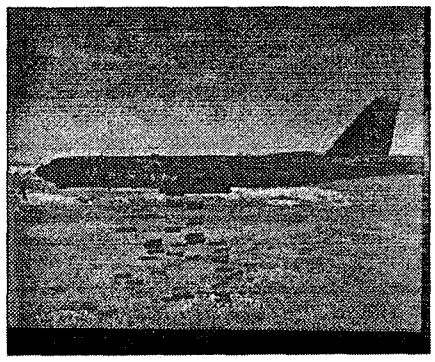


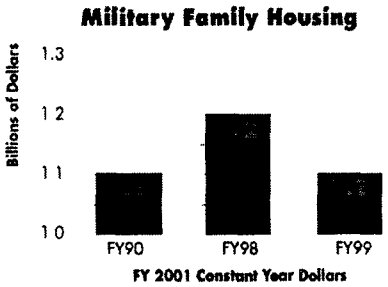


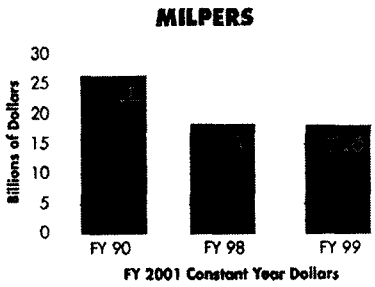
Note: Budget authority of $70.3 billion differs from figures in statements because of inflation adjustments to FY 2001 constant year dollars and presentation of only Blue Air Force TOA less the National Foreign Intelligence Program, Special Operations Command and the Defense Health Program.

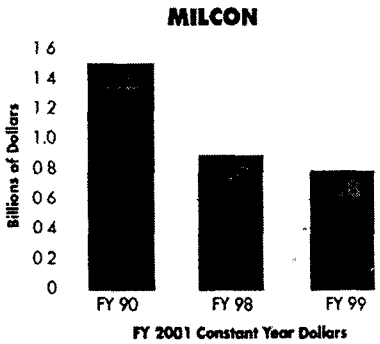
FINANCIAL DISCUSSION AND ANALYSIS

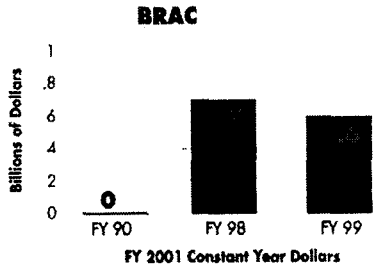












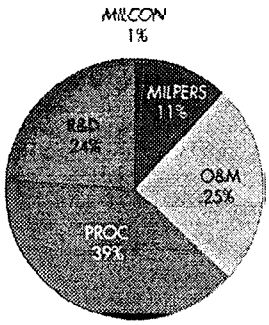
Note: Budget authority of $70.3 billion differs from figures in statements because of inflation adjustments to FY 2001 constant year dollars and presentation of only Blue Air Force TOA – less the National Foreign Intelligence Program, Special Operations Command and the Defense Health Program

THE BUDGET BY CORE COMPETENCY

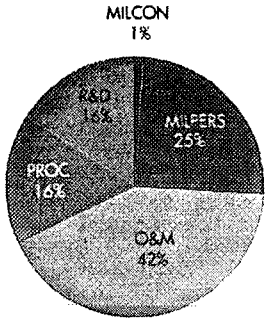
In addition to presenting its budget in the traditional appropriation and programs structure format, the Air Force budget can also be usefully described in terms of the service **Core Competencies** *This recognizes that these core* competencies of **Air and Space Superiority, Global Attack, Precision Engagement, Rapid Global Mobility, Information Superiority,** and **Agile Combat Support** are the foundation from which the Air Force is building toward its vision for the 21st Century – Global Engagement.

In addition to these six core competencies the Air Force considers Quality People and Infrastructure essential to effectively performing our core competencies. The charts below show how the Air Force FY 1999 budget of $70.3B (FY2001 constant year dollars) was divided by core competency.

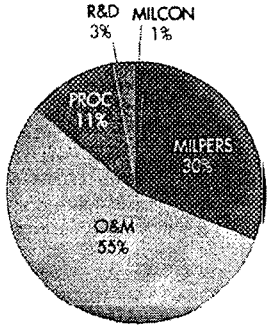
Air and Space Superiority
($11.2 Billion)



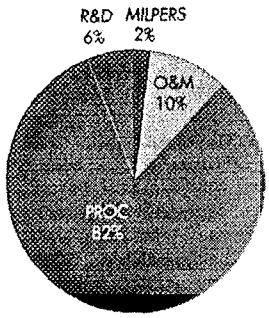
Global Attack
($12.1 Billion)



Rapid Global Mobility
($11.0 Billion)

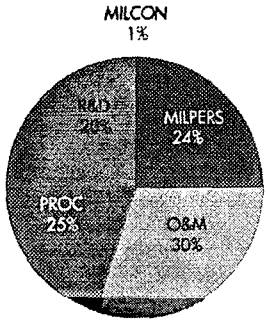


Precision Engagement
($1.3 Billion)

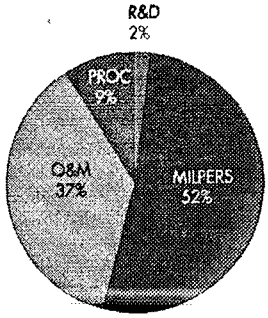


FINANCIAL DISCUSSION AND ANALYSIS

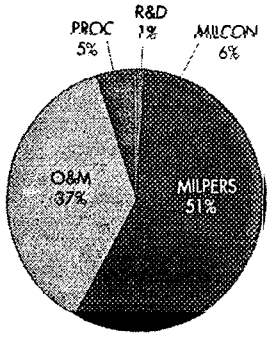
Information Superiority
($8.3 Billion)



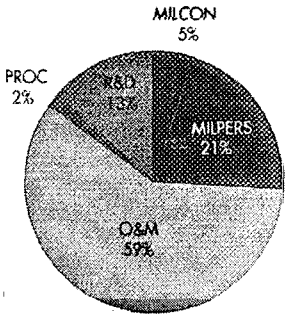
Agile Combat Support
($4.2 Billion)



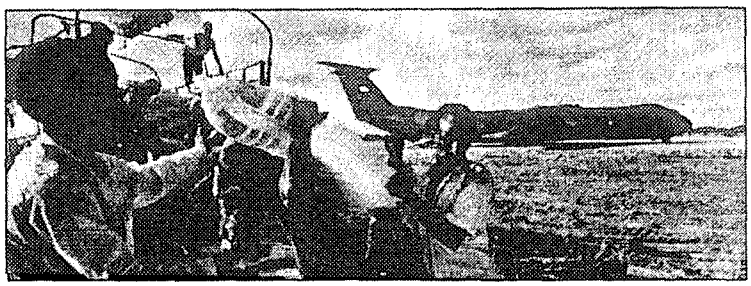
Quality People
($7.6 Billion)



Infrastructure
($14.6 Billion)



Note: The charts above indicate how each competency is funded by the different Air Force appropriations



THE BUDGET AND GPRA

The Government Performance and Results Act (GPRA) requires that agencies establish a mission and the goals necessary to meet that mission. For each goal the agency is to develop performance measures and compare actual results to those measures

The Air Force mission is to defend the United States through the control and exploitation of air and space. To accomplish that mission the Air Force strategic plan establishes three goals:

- Recruiting and retaining quality people
- Maintaining the near-term readiness necessary to sustain mission performance
- Modernizing forces to sustain long-term readiness

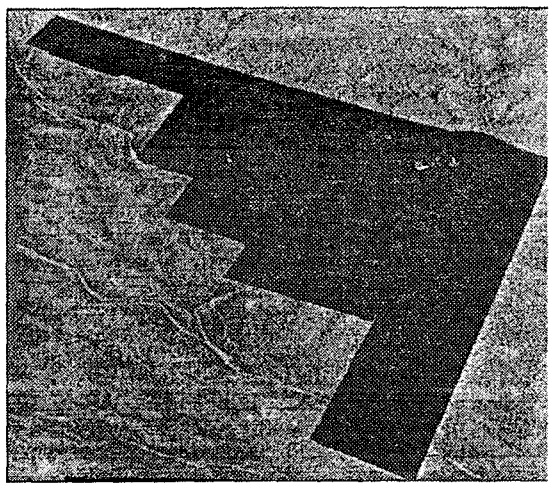
These Air Force goals are linked to the overall DoD corporate goals. Recruiting and retaining people relates to the DoD goal of the same name Maintaining readiness supports the DoD goal to have the forces necessary to shape and respond to the international environment. Modernizing forces supports that DoD goal to prepare for an uncertain future by modernizing.

This section of the report discusses each Air Force goal and selected performance measures associated with it In keeping with the requirements of GPRA, actual performance in FY 1999 is compared with target performance where possible and the results are related to the Air Force budget for FY 1999.

Goal 1: Recruiting and Retaining Quality People

In Fiscal Year 1999, the Air Force had difficulty meeting its goals to recruit and retain quality people The service fell short of both its goals for number of enlisted recruits and its goal for retention of officer and enlisted personnel, a result that is of great concern to Air Force leaders

In response, the FY 1999 budget added substantial additional funding for recruiting and retention New or increased initiatives included more and



higher retention bonuses, enlistment bonuses, and increases in recruiters and advertising The Air Force also provided strong support for the department's initiatives to improve pay In response, the Congress enacted a 4 8% pay raise for military and civilian personnel for FY 2000. The Congress also improved retirement benefits for military personnel and reformed the military pay table to give larger raises to specified personnel. These initiatives, which are discussed in greater detail below, along with detail about the performance measures, will have important effects on the FY 2000 budget.

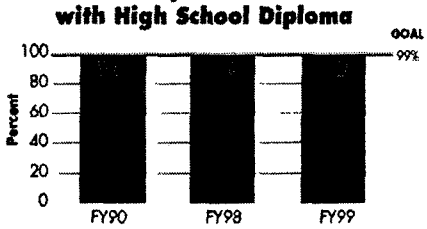
Recruiting

In FY 1999 the Air Force recruited 5,162 new officer recruits compared to a goal of 5,357. This shortfall of 195 officer recruits represents 4% of the goal. The service also fell short of its goals for number of enlisted recruits. The goal called for the service to bring in 33,800 enlisted recruits The actual number of new recruits totaled 32,068, a shortfall of 1732 or about 5%.

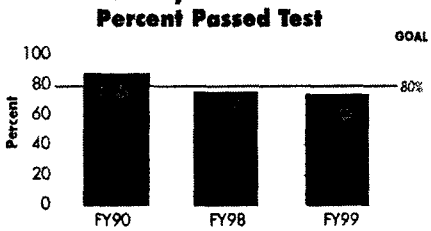
While missing its goal for new enlisted recruits, the Air Force did meet most of its goals on another important enlisted recruiting measure – the

FINANCIAL DISCUSSION AND ANALYSIS

Quality of Recruits with High School Diploma



Quality of Recruits Percent Passed Test



quality of those recruits Enlisted recruit quality is typically measured by the percentage of new recruits who hold high school diplomas, a good measure of willingness to persist and complete training. Quality is also measured by the percentage of recruits who score in the top half (categories I to IIIA) on the entrance test given to all new recruits, which is a good measure of ability to learn complicated skills. The Air Force wants 99% of its new recruits to hold high school diplomas, and it met that goal in FY 1999 (See chart) In FY 1999 about 76% of all enlisted recruits scored in the top half on the entrance test, close to the Air Force goal of 80% (See chart).

In response to these important recruiting problems, and particularly to the shortfall in total enlisted recruits, the FY 1999 overall budget for recruiting increased by 36% compared to FY 1998, from $177.2M to $241 5M. The primary reason for the dramatic increase was our first-ever paid TV advertising campaign. The FY 1999 budget included $17M to launch the campaign and $37M to pre-pay spots for FY 2000.

Retention

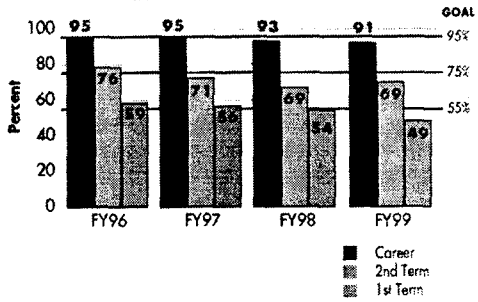
The Air Force failed to achieve its goals in FY 1999 for retention of most categories of personnel. For enlisted personnel retention is usually measured by the percentage of personnel who remain in service at the end of their first term (which typically occurs after four to six years of service), the percentage who remain after their second term (typically eight to twelve years of service), and those who remain in their career years. As the chart below shows, the Air Force missed its goals in all three of these categories Career retention stood at 91% during FY 1999 compared with a goal of 95%. Second term retention totaled 69% compared with a goal of 75%. First term retention amounted to 49% compared with a goal of 55%.

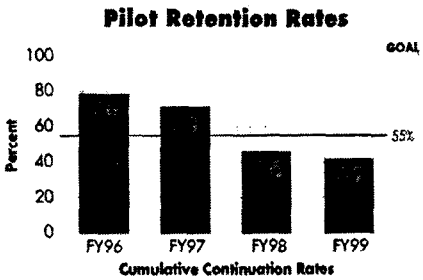
First term retention was affected by a change in policy about when a person could reenlist However, even adjusting for this change, the Air Force missed its FY 1999 goal.

In addition to missing goals for retention of enlisted personnel, the Air Force is also having difficulty retaining another key category of personnel – pilots. Today the Air Force is short about 1200 pilots or 9% of its requirement The strong economy, and hiring by the airlines explains this shortage along with other factors noted below

To monitor pilot retention trends, the Air Force measures Cumulative Continuation Rates (CCR) This is an estimate of the percentage of pilots

Enlisted Retention





entering their sixth year of service who given current retention patterns, are expected to remain in the Service through their 11th year. CCR is a backward looking retention measurement. In FY 1999 the pilot CCR amounted to only 41%, down from 46% in FY 1998 and well short of the long-term sustainment target of 55%, as well as the higher near-term retention levels necessary to correct for the current 9% inventory shortfall.

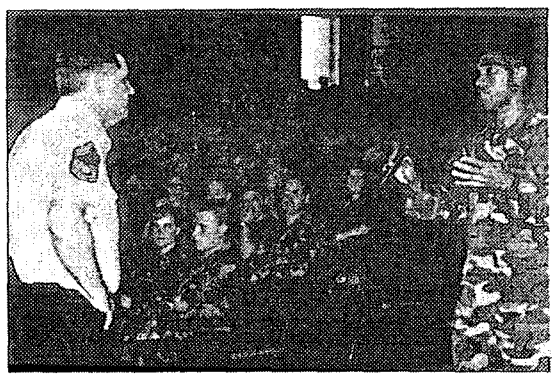
There is, however, some reason for optimism In FY 1999 the Air Force increased the cash bonuses for pilots who remain on active duty To judge the effects of these bonuses, the Air Force measures the long-term pilot bonus take-rate, which is a more forward-looking retention indicator In FY 1999 the take-rate amounted to 42%, up from 27% in FY 1998. In addition, for FY 2000 Congress enacted new aviation bonuses that, along with an aggressive and integrated retention plan, should further improve pilot retention.

Why is the Air Force having retention problems? In addition to specific reasons noted above with regard to pilots, there are many overall factors In some cases the lure of higher wages in the private sector leads to departures With the economy strong, job offers are plentiful and wages are high for many of the highly skilled people who work in the Air Force The pay improvements enacted by the Congress for FY 2000 should offset some of these adverse retention effects

High operating tempo, which results in long separations from family and friends, is another important reason why people leave the Air Force To measure and monitor this key factor, the Air Force establishes a goal that personnel should spend no more than 120 days on temporary additional duty (TDY) that takes them away from home The Air Force met this goal in FY 1999 for 75% of its active duty personnel assigned to combat systems. Unfortunately, the other 25% exceeded the goal, and the average days of TDY among the group that exceeded the goal equaled about 148 days. In an effort to reduce the adverse effects of high operating tempo on retention, the Air Force is undertaking a major reorganization called the Expeditionary Aerospace Force (see prior discussion). This reorganization will not reduce the amount of TDY time – that is determined largely by mission and training needs – but will provide Air Force personnel with more predictable TDY schedules.

Training

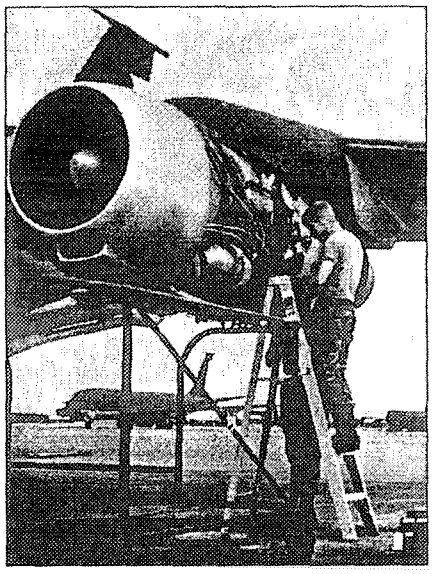
Funding for training amounted to $5.5 billion in 1999. Training funds cover a wide variety of expenditures, including salaries of trainers and trainees, operation of bases that provide basic and advanced training, funds to procure trainer aircraft and support equipment, and other expenses. Training funds come primarily out of the appropriations for military personnel, operation and maintenance, and procurement Compared with 1998, training funds in 1999 rose by 3 4% This increase reflects an increase in the number of new personnel recruited to replace those separating



Programmed Hours Per Crew Per Month (HCM)

	FY94	FY95	FY96	FY97	FY98	FY99	FY99 Goal
Fighter	19.7	19.9	20.0	19.3	17.0	17.7	17.7
Bomber	18.0	20.7	19.7	19.9	19.3	17.9	17.9
Tanker	15.8	16.0	15.4	16.2	18.4	17.0	17.0
Airlift	25.5	24.0	24.0	23.8	24.5	23.9	23.9

Training of one category of personnel, pilots, is understandably of particular concern to the Air Force since the number and quality of trained pilots bears so directly on the ability of the Air Force to accomplish its mission and because of the pilot shortages discussed above. One key measure of pilot training is the hours per crew month (HCM) that pilots spend flying and training. Because of its importance to training and its effects on the budget, the Air Force monitors this goal closely. The chart below shows that the Air Force met its FY 1999 goal for each category of aircraft



Goal 2: Maintaining Near-Term Readiness

Sustaining the operational performance of its forces is key to meeting the Air Force mission. To accomplish its mission, the Air Force maintains a variety of forces. At the start of 1999, our forces included a total of some 6,203 aircraft, including about 4,413 in the active force and 1,790 in the Air National Guard and Air Force Reserve. Of the aircraft in the active forces, approximately 2,400 are fighter or attack aircraft, with 200 bombers, and 800 cargo and transport planes. Other aircraft provide in-flight refueling; training; intelligence, surveillance, and reconnaissance; and other functions. In addition to the aircraft, the Air Force maintained 103 satellites on orbit and eight associated permanent ground stations.

The Air Force must not only maintain an adequate number of the right types of military forces, but must also maintain these forces in a sufficient state of readiness to react quickly in the event of a contingency or war. Readiness has declined in recent years and, especially in a period when short-notice wars and contingencies are frequent occurrences, the level of readiness is of great concern.

Readiness is measured in many ways, one being the percentage of all forces that are fully or nearly fully ready to accomplish their mission. By this measure about 67% of all major Air Force units were ready in FY 1999. This percentage is down from its level of 78% in FY 1998 and well below its level of 90% in FY 1996. The overall Air Force goal is to have 100% of its major units ready or nearly ready. Historically about 90% of major

units have been ready. By either the goal or the historical figure, the Air Force missed its overall readiness target in FY 1999.

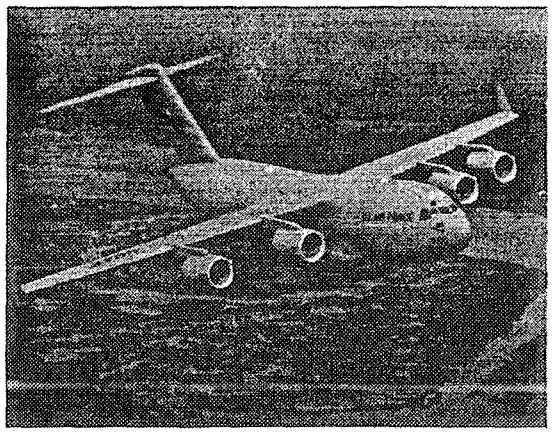
Another measure of readiness for aircraft is mission-capable (MC) rates (expressed as the percentage of planes that are ready to perform their required mission) By this measure, Air Force readiness amounted to 73.5% in FY 1999. This level is slightly below the level in FY 1998 and well below the FY 1996 Level of 76.5% (See chart).

While the overall level is at 73.5%, mission capable rates vary widely by type of aircraft. The charts below show rates by type of aircraft.

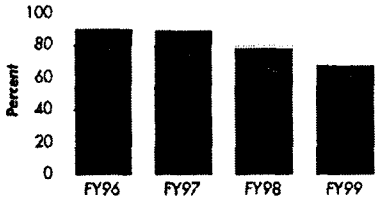
- Fighter MC rates continued to decline for FY 1999 by 0.5% from FY 1998 Fighter MC rates are also below the goals, which vary by type of aircraft but range from about 80% to 83%.
- Bomber and Strategic Airlift MC rates stayed constant from FY 1998 but were below the goals, which vary by type of aircraft and range from 67% to 87%
- Other MC rates decreased (1.7%) from FY 1998 and generally fell below the goals that usually are 75-80% or higher.

A number of factors explain this decline in readiness and failure to meet goals Among them are reduced spares funding in past years, increased operations and personnel tempo (TEMPO), and an aircraft fleet that is getting older. Kosovo operations had a particularly dramatic effect on mission capable rates for 1999. During operations in Kosovo, 37% more Air Force personnel were engaged in worldwide operations than during Desert Storm. The increased operations had a direct impact on the wear, tear, and usage of an aging fleet of aircraft. As a result, some aircraft mission-capable rates declined from comparable 1998 rates.

These continuing declines in readiness are of great concern, and both the Air Force leadership and Congress are taking actions to reverse the adverse trends. In addition to personnel measures noted above, an additional $1.2B was allocated to purchasing critical spare parts. For example, the Air Force purchased about $380 million of spare parts to

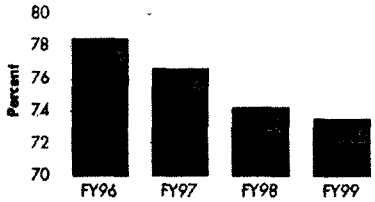


Overall Readiness Trend

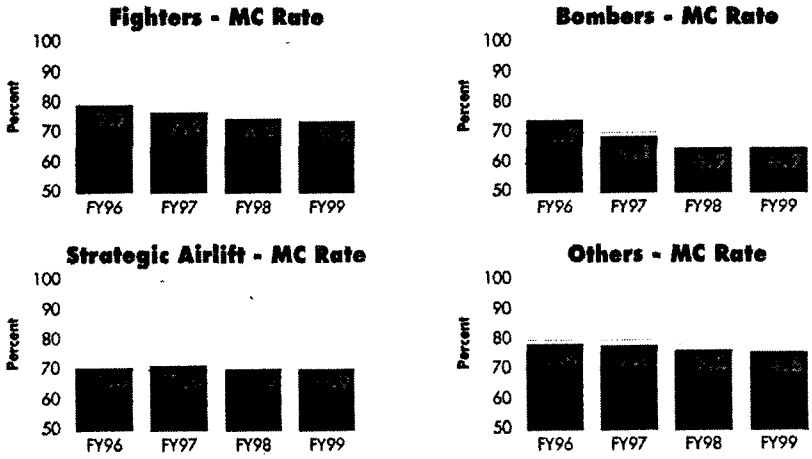


Overall Readiness down 25% since 1996

Total Air Force Mission-Capable Rate

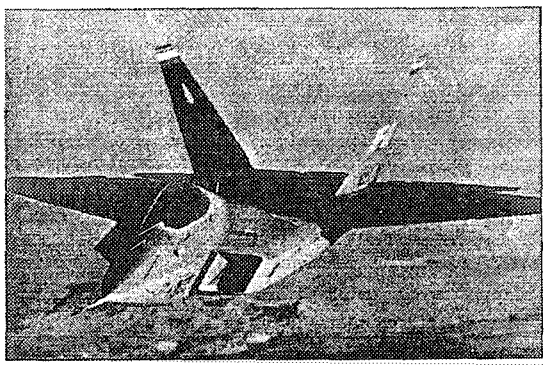


Mission Capable Rate down 6.4% since 1996



increase stockage levels, which in turn reduces the time weapons are inoperable due to maintenance Although funds have been received it will take 12 to 18 months before the effect of these spare parts is felt at operational units.

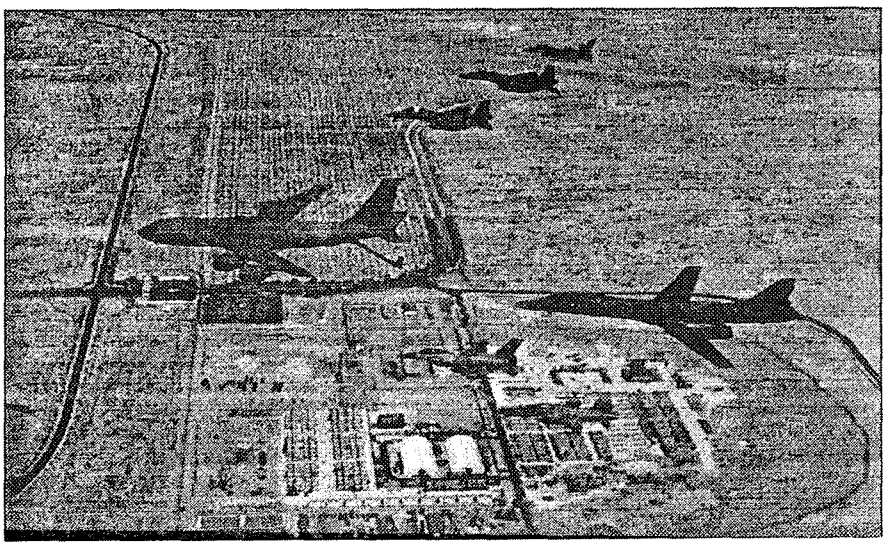
While of concern, these declines in readiness should be considered in the context of actual operations. In 1999 the Air Force employed hundreds of aircraft in the Kosovo operation – the equivalent of a major theater war Despite problems with overall readiness, the Air Force – along with the other services and coalition partners – forced the withdrawal of enemy forces from Kosovo without resorting to use of ground troops and without incurring any combat casualties. By this measure, the Air Force was in a high state of readiness in FY 1999



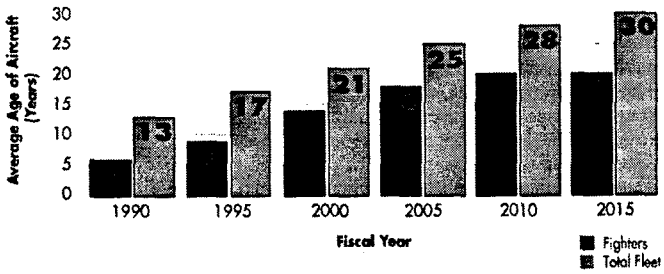
Nevertheless, operational readiness has and will continue to receive priority attention. The Air Force is committed to ensuring that its men and women are trained and equipped to accomplish their mission.

Goal 3: Modernizing Forces

In the post-Cold War years, the Air Force significantly cut back its funding for modernization. Between 1990 and 1998, the two appropriations most closely associated with modernization – procurement and research, development, test and evaluation – declined sharply. Lower funding led to sharp cutbacks in purchases of weapons. Those cutbacks in turn led to an aging of the Air Force fleet, particularly the aircraft fleet The chart shows that, given current procurement plans, the fleet will average about 21 years of age in FY 2000. That average age will rise to 30 years by 2015. While the Air Force does not have a specific goal for the age of its planes, older aircraft mean more



Average Age of Air Force Aircraft



work for maintenance personnel and higher budgetary cost for spares and depot maintenance

The budget for FY 1999 reversed this decline in funding for modernization. Taken together the procurement and research appropriations increased in real terms by 4.2% between FY 1998 and FY 1999, from $ 29.9B in FY 1998 to $31.2B in FY 1999. The added funding permitted the Air Force to invest in a wide variety of programs The accompanying chart displays key programs

Some of these programs – including the F-22 Raptor, C-17 Globemaster, and Joint Strike Fighter – are developing or buying new aircraft that will eventually arrest the aging of the aircraft fleet Other programs – including Space-Based Infrared System (SBIRS) and Evolved Expendable Launch Vehicle (EELV) programs – will further Air Force efforts to become an aerospace force. This effort requires not only investment in satellites but also launch facilities and ground control stations

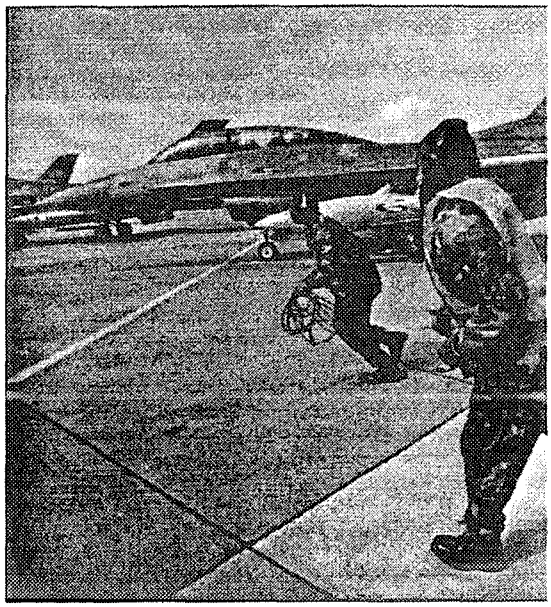
Key Modernization Programs

Aerospace Superiority	
F-22 Raptor	The air dominance aircraft of the 21st Century
Evolved Expendable Launch Vehicle (EELV)	Assures America's future spacelift capabilities
Space-Based Infrared System (SBIRS)	Multifaceted space-based sensor system
Airborne Laser (ABL)	Provides theater ballistic missile defense
Rapid Global Mobility	
C-17 Globemaster III	Provides unmatched inter-theater airlift
Global Access, Navigation and Safety (GANS) Programs	Seven interrelated programs to improve flight navigation and safety
C-5 Galaxy	Long-range heavy cargo transport
Global Attack	
B-2 Spirit	Continues to improve the world's only long-range stealth aircraft
B-1 Lancer and B-52 Stratofortress	Continue to improve the B-1's capabilities and upgrade B-52 navigation and communication systems
F-15 Eagle and F-16 Falcon	Potent mix of air-to-air and air-to-surface capability
F-117 Nighthawk	Precision weapon delivery system penetrates dense threat environments
Joint Strike Fighter (JSF)	Low-cost, multi-role stealth fighter to replace aging F-16 fleets
Precision Engagement	
Joint Air-to-Surface Standoff Missile (JASSM)	Provides heavily defended, hard-target kill capability with relatively low risk to attacker
Joint Standoff Weapon (JSOW)	Delivers cluster munitions against armor and troops at ranges up to 40 nautical miles
Joint Direct Attack Munitions (JDAM)	Delivers general purpose and penetrator warheads in adverse weather with precision accuracy
Wind Corrected Munitions Dispenser (WCMD)	Enables Air Force to accurately deliver dispenser weapons from high altitude
Information Superiority	
Command and Control (C2)	Developing the ability to use C2 as a weapon inside the enemy's operating circle
Joint Surveillance Target Attack Radar System (JSTARS) and Airborne Warning & Control System (AWACS)	Provides theater commanders real-time, wide-area surveillance of enemy ground movements
Unmanned aerial vehicles: Predator and Global Hawk	Provide imagery intelligence collection to commanders
U-2 and RC-135 Rivet Joint	Primary aircraft for ISR data collection
Global Positioning System (GPS)	GPS navigation information is being integrated into nearly all facets of the battlefield
Agile Combat Support	
Global Combat Support System (GCSS)	Improves Air Force responsiveness, mobility, and sustainability of deployed forces

Cost Effective Operations

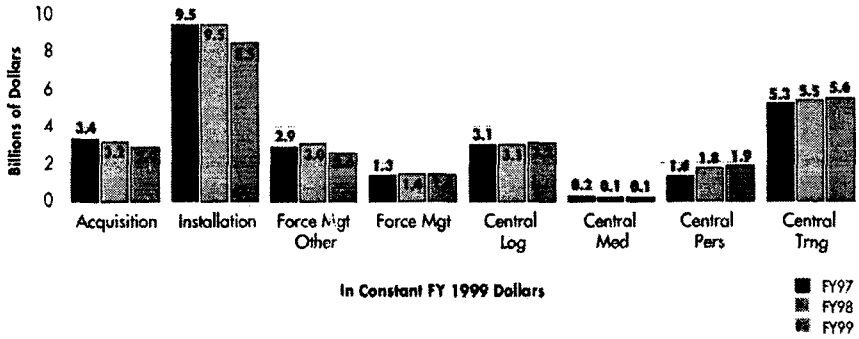
Not only must the Air Force accomplish its *mission; it must do this at the lowest reasonable* cost level. One way to measure efforts to hold down costs is to analyze the money spent on infrastructure

Infrastructure is generally defined as all the people and programs that do not deploy in war but are necessary to maintain an effective combat capability. Infrastructure costs include those for installation support, training, central logistics support, acquisition support, and other support activities. It is what would be considered "overhead" in a commercial business enterprise. Total spending on infrastructure amounted to about $26.1B in FY 1999 or about 41% of the Air Force budget (FY 1999 dollars from FY 2000 PB). While the Air Force does not have a specific goal for the level of its budget devoted to infrastructure, the Department of Defense as a whole has set a goal of spending 43% or less of its budget on infrastructure. By that measure, the Air Force is below the Office of the Secretary of Defense (OSD) goal.

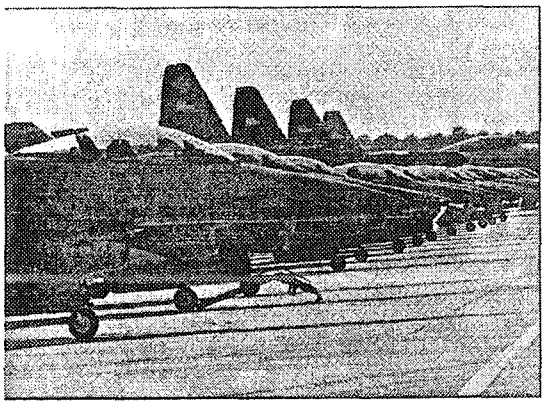


In addition to bettering the OSD goal, overall funding for infrastructure declined between 1998 and 1999 in real terms. The overall decline reflected reductions in several categories of infrastructure, particularly installation support But a few categories increased. For certain categories, such as training, the increases were explained by the need to train more pilots and enlisted personnel to offset low retention rates. The Air Force continues to look for ways to reduce infrastructure costs in order to free-up funds to support its high operating tempo and to fund modernization.

Infrastructure Funding



FINANCIAL MANAGEMENT REFORMS/INITIATIVES



As in past years the Air Force aggressively pursued its goals for financial management reform during FY 1999. Our efforts continue to rely on many government groups, including our own personnel, the Air Force Audit Agency the Defense Finance and Accounting Service (DFAS), and other organizations

Why Financial Reforms are Needed

Financial management reform remains an urgent concern of the Assistant Secretary of the Air Force for Financial Management and Comptroller The Air Force needs financial management reform to:

- Provide better financial information to our commanders and managers
- Improve confidence in the Air Force as good stewards of taxpayer dollars
- Meet the requirements of public law
- Support the President's goal for auditable financial statements

There are many elements to successful financial reform. Among them are improvements in professional qualifications, achieving auditable financial statements, improving compliance with financial rules and regulations, improving cost accounting, and increasing efficiency

Improve Professional Qualifications

Air Force financial management is only as good as the people who perform it Today's financial management workforce is well trained and is performing ably However, in future years there will be substantial turnover in this workforce, and the demands of financial reform will continue to require new skills.

We have, therefore, begun an effort to further improve the professional qualifications of our financial management personnel In May of 1999 the senior financial management leadership in the Air Force issued guidelines for the professional development of its financial managers. These guidelines apply to those in designated positions that are involved in policy decisions or are responsible for enforcing financial laws and regulations. However, the leadership is encouraging all financial management personnel to follow the guidelines and to complete an Individual Development Plan that explains how they will meet the guidelines.

The guidelines for professional development cover continuing professional education (CPE), general education, professional and military education, experience, and test-based certification. There are three levels of guidelines depending on the seniority of the designated position. The specific provisions of the guidelines can be found on the SAF/FM website **<www.saffm.hq.af.mil>**

Continuing professional education is a key part of these guidelines because it enables financial managers to stay informed of the many changes in financial management. The guidelines call for those in designated positions to obtain 80 hours of CPE every two years, with at least 10 hours in each year. For those Air Force personnel who

sometimes have difficulty completing CPE because they work at remote locations and have unpredictable schedules, Air Force financial leaders plan to make CPE easier to complete. SAF/FM plans to make CPE available using distance learning courses, videotapes, articles and quizzes on the SAF/FM home page, and other techniques.

The guidelines also encourage financial managers to obtain a test-based certification of their know-ledge. As part of this effort, the Air Force supports the American Society of Military Comptrollers in its efforts to develop training and a test-based certification program focused on defense financial matters. Beta testing of this exam started in December 1999, and the exam should be available by the spring of 2000. The Air Force, in conjunction with the other services, will provide training on financial issues including those that will be covered by the exam. That training started in January 2000.

Produce Auditable Financial Statements

The Air Force is working hard to achieve auditable financial statements. We need auditable statements to verify the accuracy of the data we use to manage the Air Force and to comply with the Chief Financial Officers Act of 1990 Perhaps most of all, we need auditable financial statements to reassure the public that we are good stewards of their funds.

The Air Force has a three-part plan aimed at achieving auditable financial statements. FY 1999 saw progress in each of the three parts of this plan.

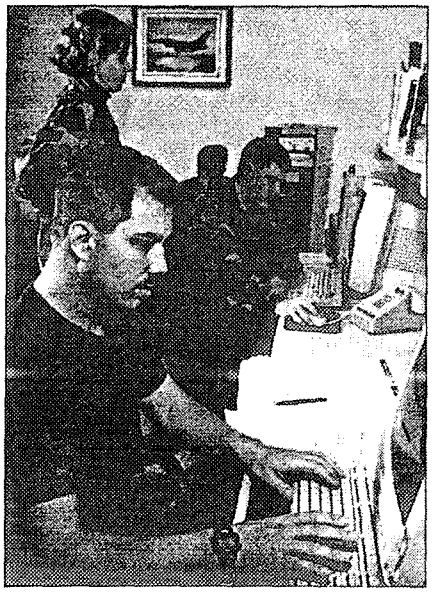
Achieve an Auditable Budget Statement

The Air Force has focused on achieving an auditable Statement of Budgetary Resources for its general funds because the data in this statement are used most widely in the management of the service. The full-up audit of this statement in FY 1998 showed very substantial progress Our auditors concluded that there were no material weaknesses in budgetary resources provided – that is, in the way the service followed the rules for funding set down by Congress and DoD regulations The auditors also concluded that there were no material weaknesses in Air Force disbursements made by DFAS (though there were some internal control problems that were not judged to be material). While not surprising, these findings suggest that the Air Force is close to achieving an auditable Statement of Budgetary Resources.

Despite this progress, the Air Force auditors issued a disclaimer on the Air Force budgetary statement for FY 1998 because there were material errors in older or expired obligations. In too many cases we could not provide adequate documentation that these older obligations were still valid

The Air Force has responded by reemphasizing the need to clean up these older obligations during its tri-annual review of obligations The review of liquidated obligations for FY 1999 led to considerable progress Total accounting lines reviewed equaled 861,133; lines deobligated equaled 56,968 which allowed $1,220M to be deobligated. Progress has been made and will continue in the future. Consistent with the overall DoD goal to improve auditability, the Air Force will continue to work to achieve a clean audit opinion on the budgetary statement for general funds. We have established a goal of having a clean opinion on the FY 2001 statement

> "We must do what every successful publicly traded corporation in America does and have financial records that can withstand audit scrutiny."
>
> Robert Hale,
> Assistant Secretary of the Air Force,
> Financial Management and Comptroller



Achieve Auditable Balance Sheet Using Implementation Strategies

The implementation strategy initiative represents a key element of our efforts to produce auditable financial statements particularly for the balance sheet The Department has formulated a series of implementation strategies and supporting action plans designed to accomplish the improvements needed to achieve auditability of the balance sheet and other financial statements. In support of these implementation strategies, the Air Force has been working since May 1998 to resolve numerous issues Using Integrated Process Teams (IPTs) headed by a senior financial and logistics manager, we are employing a coordinated effort with other functional communities in the Air Force to achieve auditability

During FY 1999 the Air Force made substantial progress using these implementation strategies. The service conducted a survey of a sample of its real property holdings. The private-sector firm hired to oversee this work then used the survey to appraise the value of these real property assets and compare the appraisal to the data in the Air Force real property system. The private firm concluded that the Air Force data and the appraisal were sufficiently close in value that the data could be judged to be compliant with the CFO Act, a major step toward achieving an auditable balance sheet

Several other efforts are underway The Air Force is cooperating with DoD to determine how to verify the amount and value of its so-called "personal" property, which includes many major types of equipment. The Air Force is also working to properly assess its environmental liabilities which must occur before the contingent liability portion of the balance sheet can be rendered auditable. The Air Force is also investigating ways to account for and value its inventory and is cooperating with DoD in efforts to value government-furnished property

Achieve CFO-Compliant Financial Systems

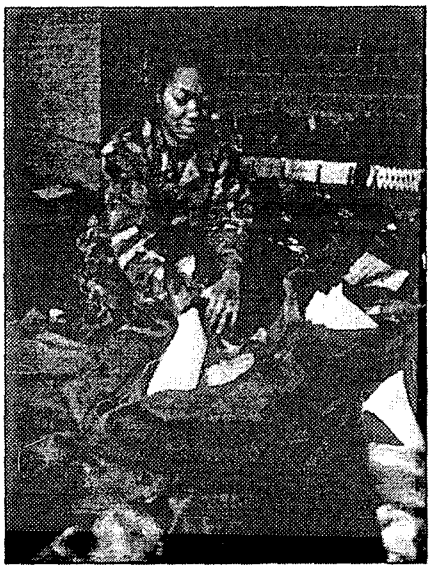
Auditable financial statements can only be achieved in a timely fashion when the Air Force can improve its financial systems. In many cases these systems, which were designed to control budgets but were not designed to do accounting, must be modified substantially

The Air Force is working with DFAS to improve our formal accounting systems. But the Air Force is also working to ensure that critical "feeder" systems – systems that provide financial data to the accounting systems – are CFO compliant To this end, in 1996 the Air Force initiated a three-step approach to first identify, then review, and finally fix all of our critical feeder systems The Air Force began by identifying all feeder systems that provide important CFO information for financial statement reporting. Once the critical feeder systems were identified, the Air Force Audit Agency initiated a project to conduct audits of each system. These initial audits identified many of the deficiencies that must be corrected in order for the system to be considered fully compliant. The next step will be to develop plans to correct these deficiencies and bring the systems into com-

pliance. To assist in this effort, private contractors will work with program managers to determine the required actions and a proposed schedule. Following the corrections, each system will undergo a final assessment leading to certification.

Progress has already been made on some of the most important systems. During FY 1999, the Civil Engineers fielded the real property module of the new Automated Civil Engineer System (ACES) and began using it for reporting asset information to the general ledger for preparation of financial statements. ACES was implemented at active Air Force bases. Implementation for the Air National Guard will be completed in FY 2000. ACES is designed to comply with the CFO Act. The Air Force Equipment and Management System (AFEMS), which handles some types of personal property, was also modified over the last year to comply more closely with the CFO Act.

One of the largest and most complex of the feeder systems is the one in use in the Air Force depots that repair aircraft and other weapons. The Depot Maintenance Accounting and Production System (DMAPS) and associated Defense Industrial Fund Management System (DIFMS) will provide much better cost accounting data and are also designed to comply with the CFO Act. Conversion of the first depot to DMAPS/DIFMS has already begun and is scheduled to be completed in October 2000. The other two major depots are scheduled for conversion by 2001.



Producing auditable financial statements involves many efforts. To tie them together SAF/FM initiated a high priority effort to build a "Road Map to Auditable Financial Statements." The road map project involved Air Force financial and other functional areas, the office of the DoD Comptroller, DFAS, and the Air Force Audit Agency. This initiative pulled together myriad ongoing actions and unmet requirements to produce auditable financial statements, identifying all the critical areas that must be addressed.

This initiative focused on the balance sheet of the general funds. Within each of the asset and liability categories, the road map addressed financial systems and related feeder systems, as well as the policies and procedures that guide DoD and Air Force Financial Management. The final product will include a complete guide for gathering the information required for the production of the CFO Financial Statements.

Increase Compliance

Successful financial management reform demands a good system to ensure compliance with financial laws and regulations. Careful compliance is also necessary to minimize chances for financial fraud.

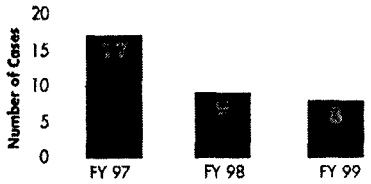
During the last year, the Air Force completed a reorganization of its base-level financial management organizations. The new organization establishes a Quality Assurance position at each base reporting directly to the senior financial management official on the base. We now have an individual who is responsible for training and monitoring enforcement of financial rules and regulations. The Air Force has also established a group at the Denver Center of DFAS that, among other duties, is responsible for overseeing quality assurance efforts. We believe these organizational changes will strengthen our compliance efforts.

FINANCIAL MANAGEMENT REFORMS/INITIATIVES

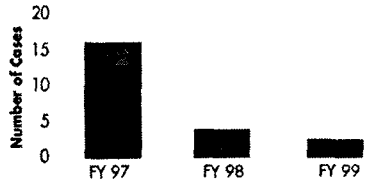
The Air Force continues to make significant progress in one key area of compliance, the number of open Antideficiency Act (ADA) violations. Because antideficiency cases can be violations of federal law, the number of potential violations are one indicator of the adequacy of financial management. In 1997, the Air Force had 17 open antideficiency violations; by the end of FY 1999 we had reduced the number of open cases to only eight. New cases fell from 12 in 1997 to only two in 1999.

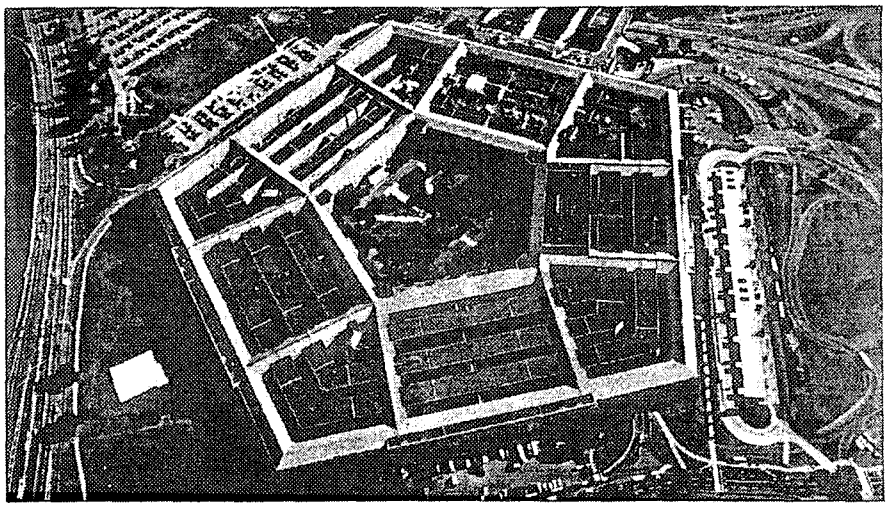
The reduction in antideficiency violations is attributable to more emphasis on preventive initiatives including increased fiscal and appropriation law training, along with comprehensive management program and budget reviews Last year we completed a web-based training course designed to improve the quality of ADA investigations This year we published a new Air Force Instruction on investigating antideficency violations Additional improvement in the Air Force antideficiency program is attributable to increased support from senior SAF/FM leaders, more attention and involvement from major command financial management organizations identifying and investigating antideficiency cases, better screening of suspected violations, and improved antideficiency training.

Ongoing Antideficiency Act Investigations

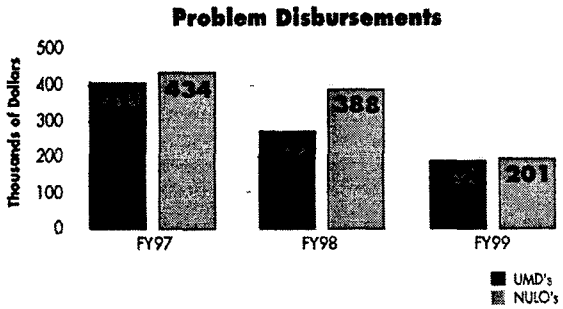


New Antideficiency Act Cases





FINANCIAL MANAGEMENT REFORMS/INITIATIVES



The Air Force also works with the DFAS to reduce the overall level of problem disbursements. Problem disbursements are made up of Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs). A UMD is a financial disbursement that cannot be readily matched to a recorded obligation. A NULO is a financial disbursement that appears to exceed the obligation to which it has been matched The work done in this area has made great progress as seen in the chart above

As the chart shows, problem disbursements fell sharply from a total of $665 million in 1998 for UMDs and NULOs together to a total of only $394 million in 1999 The Air Force and the Defense Finance and Accounting Service (DFAS) are making concerted efforts to reduce the overall level of problem disbursements, using techniques such as pre-validation of obligations before disbursements are made. Other initiatives to reduce problem disbursements include Contract Reconciliation, Direct Input to MOCAS and elimination of Cross Disbursements and Straight Pay. Additionally, during FY 1999 problem disbursement workshops were held specifically to address these complex issues

Improve Cost Accounting

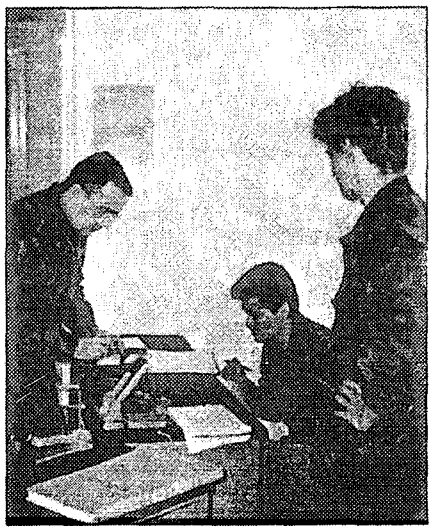
Providing commanders with better cost information is a key to improving financial management and decision making Several key initiatives illustrate our progress. During FY 1999, the Air Force continued to develop the Air Force Total Cost of

Ownership (AFTOC) information system AFTOC provides detail on the costs of supporting weapon systems. When the system is fully implemented, it will be the authoritative source across the Air Force for cost information about weapon systems

As noted above, the Air Force is also nearing deployment of the DMAPS/DIFMS system for its depots. This family of systems will, for the first time, provide actual data on costs of repair for major weapons – a major improvement in cost accounting in a business that spends about $4 billion a year Last year also saw development of a prototype system for accounting for the cost of flying hours. This system promises to allow Air Force financial managers at our operating

commands to devote more time to analysis and much less time to gathering facts.

Additionally, the Air Force significantly increased efforts to make use of Activity-Based Costing/Management (ABC/M) where it could be used to improve cost management and where it makes sense High-level interest in ABC/M was formalized with the establishment a Steering Group (SG) headed by the Air Force Vice Chief of Staff with the Board of Directors as members. The SG provides oversight and direction to the Working Group (WG) which is co-chaired by the Principal Deputy Assistant Secretary of the Air Force for Manpower, Reserve Affairs, Installations and Environment (SAF/MI) and SAF/FMC and supported by Major Command (MAJCOM) and HQ USAF representatives. This structure gives an Air Force-wide perspective that emphasizes the need for a broad, cross-functional view of cost management. Under this structure, the Air Force developed an overall plan for conducting pilot efforts to determine where and how best to implement ABC/M. A proposed timeline indicates that it will take between one and two years to conduct the pilot efforts and take action to implement ABC/M.



Increase Efficiency

The Air Force must not only improve its financial management – it must also increase the efficiency of this support function in order to free up dollars for much needed improvements in the readiness of forces and their modernization To improve efficiency the Air Force financial community has underway a number of efforts to improve and automate its business processes. A few of the more important efforts include:

Automated Business Services System (ABSS)

The Air Force has introduced the ABSS to improve financial efficiency and in response to the Vice Presidential mandate that the DoD achieve paperless acquisition. The ABSS automates funding documents, such as purchase requests, and electronically feeds the accounting and contracting systems with commitment data. The contracting systems in turn feed the accounting and payment systems via electronic interfaces. The combination of the ABSS and the contracting system interfaces will provide the Air Force with seamless, automated entry of financial data into all systems, resulting in fewer errors compared with the current manual process

The ABSS is a major step forward in the Electronic Commerce/Electronic Data Interchange (EC/EDI) arena. It introduces the capability to generate electronic forms and funding documents, user-specific pick screens/lists for form data population, automatic routing for internal and external coordination, electronic signature, automated commitments, and automated upload to standard contracting systems. The system's single-data-entry feature is expected to lead to a significant decrease in negative unliquidated obligations and unmatched disbursements. It will also provide the following productivity benefits: reduced paper processing, shorter cycle times, enhanced document traceability, and more efficient reconciliation by the DFAS. In summary, the ABSS enables a unit to initiate the procurement process, obtain the necessary coordination and fund certification, and monitor the status of the action – all on-line

FINANCIAL MANAGEMENT REFORMS/INITIATIVES

The ABSS has already been deployed to most active Air Force bases. It will be fully deployed to all active duty bases by April 2000 and to all Air Force Reserve and Air National Guard bases by the end of fiscal year 2001.

Automated Purchase Card System (APCS)

The APCS provides the Air Force with a standard system to more effectively manage and pay government purchase card charges. This purchase card is a Visa card used primarily for purchases under $2500. In the last fiscal year, the amount of purchases made with the card has increased to over $1 billion As the volume has increased, the need for an automated system has become paramount APCS reduces the administrative financial management burden of the purchase card use by implementing an Air Force wide electronic system which automates the financial processes, creates payment vouchers, and supports electronic funds transfer (EFT) payments APCS has already resulted in noticeable reductions in workload, especially at DFAS

Financial Information Systems Assessment Study (FISAS)

The Assistant Secretary of the Air Force (Financial Management and Comptroller) initiated the FISAS to identify all functional and technical interactions among the financial systems that serve the Air Force, and to provide a plan to remedy any significant deficiencies. The overall objective is to create an integrated, efficient set of systems that support Air Force business processes and financial reporting. Both DFAS and Air Force systems are being reviewed.

FISAS will be carried out in two phases Phase I, completed in FY 1999, produced baseline information about current systems, and identified and prioritized key deficiencies. Phase II will provide a series of 18-month plans to remedy any significant deficiencies and will continue until all deficiencies are remedied.

Executive Oversight Group

With the rapidly changing financial management environment and the corresponding changes in systems, coordinating developments across the

FINANCIAL MANAGEMENT REFORMS/INITIATIVES

various departments of the Air Force will be a challenge. To facilitate the development, implementation, and maintenance of all systems serving Air Force financial management, we have established an Executive Oversight Group. The Assistant Secretary of the Air Force (Financial Management and Comptroller) chairs the group with membership including representatives from the budget and cost communities, selected Major Command financial managers, members of the communication and information community, and the Defense Finance and Accounting Service.

The group has provided a forum for discussing and resolving issues, such as ensuring an effective overall architecture, determining when new systems are needed, reviewing systems implementation plans to ensure coordination among all projects, and resolving funding issues

Year 2000 (Y2K) Success

The Air Force transitioned its computers and computer systems into the 21st Century with only minor "glitches" that had no real significant impact on operations. This unqualified success was due to the Air Force's aggressive preparations for Y2K. They assessed, fixed (if needed), tested, and certified more than 3 000 automated information and weapons systems They also performed system interoperability evaluations on all 394 Air Force mission critical systems To assure that everyone was focused and took potential Y2K problems seriously, installation commanders were requested to certify that their bases were Y2K compliant They also thoroughly exercised their continuity-of-operations plan. When a few anomalies occurred, putting these contingency plans into effect quickly neutralized them.

The Air Force's Y2K program was a notable success This achievement did not just happen – it was the result of careful planning and diligent execution

> "We must be postured to respond differently in a changed world, with new sets of dangers and challenges."
>
> General Michael E Ryan
> Chief of Staff, USAF

[NEW WORLD—NEW WAYS]

The changes currently occurring in the world, especially in war fighting technology, are not gradual but exponential. One way to visualize this cascade of change is to imagine that jet airliners were crossing the Atlantic in 1913, ten years after the Wright Brothers "flew" their motorized kites at Kitty Hawk. This is the type of change we are now talking about, not the gradual linear change that occurred with respect to the development of the airplane, but explosive exponential change where we really do not know for sure how war-fighting technology will expand in the next ten years. In this type of environment you can't just lay back and react to change – you don't have the time – you need to be out front, shaping change.

The Air Force is doing just that. It is transforming how it fights and where it fights. The catalyst for transforming how it fights is the establishment of the Expeditionary Aerospace Force (EAF), which will convert the Air Force from a forward based Cold War containment force to an expeditionary force able to respond at a moment's notice to any crisis around the globe.

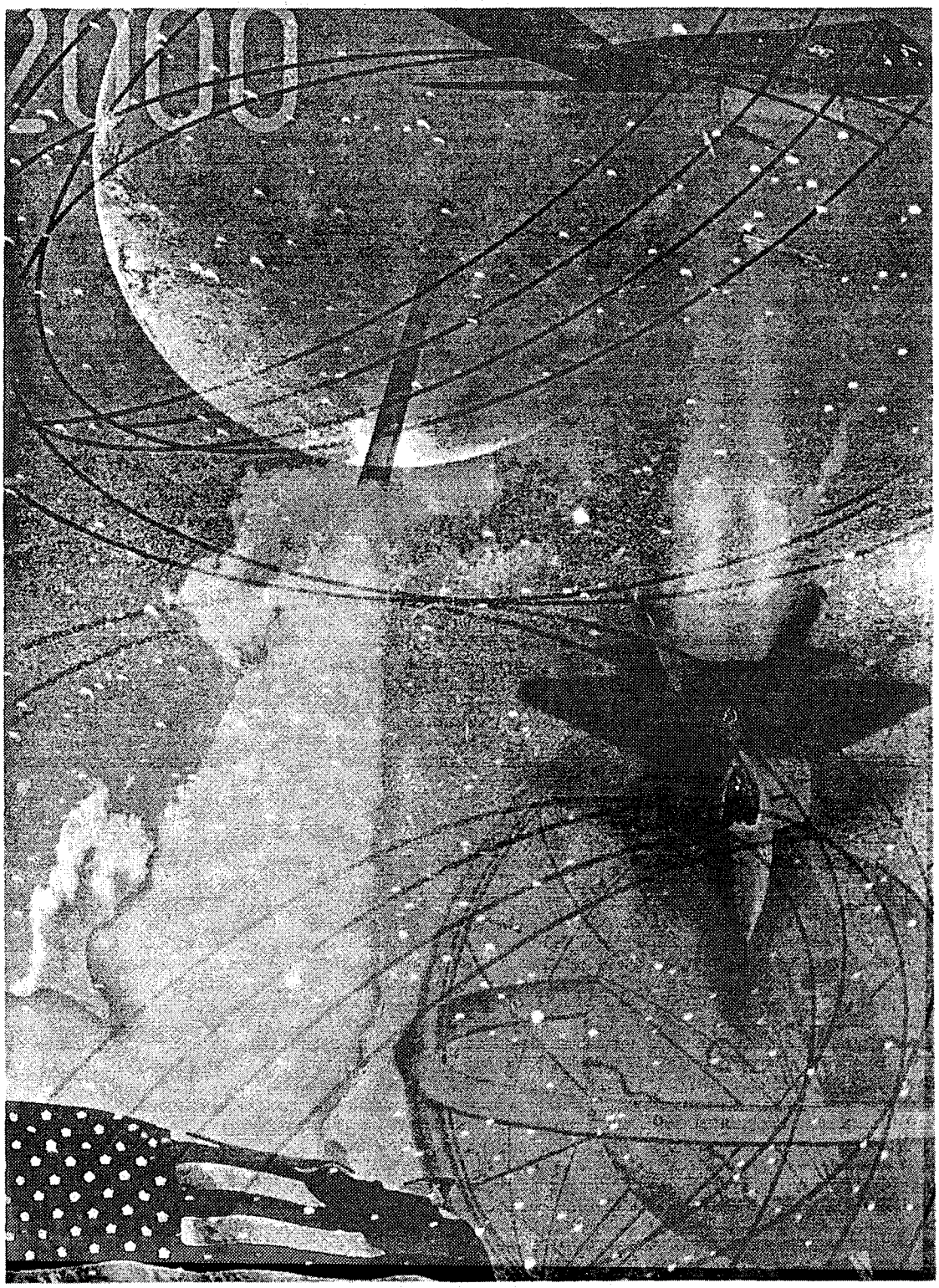
Changes to how and where the Air Force fights are epitomized by its rapid transitioning from the "air" force of the past to the "aerospace" force of the near future The Air Force has taken great strides in fusing its air-breathing assets with its space assets to shape weapons platforms of devastating force

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the U S Air Force, pursuant to the requirements of the 31 U.S C 3515(b) While the statements have been prepared from the books and records of the U S Air Force, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records

To the extent possible, the financial statements have been prepared in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and revised by OMB At times, the Department is unable to implement all elements of the standards due to financial management systems limitations The Department continues to implement system improvements to address these limitations There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent

The statements should be read with the realization that they are for a component of the U S Government, a sovereign entity One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so


2000

This Page Intentionally Left Blank

DEPARTMENT OF THE AIR FORCE

GENERAL FUNDS

FISCAL YEAR 1999

CONSOLIDATED

PRINCIPAL STATEMENTS

Department of Defense
Department of the Air Force
CONSOLIDATED BALANCE SHEET

As of September 30, 1999

($ in Thousands)

		FY 1999
ASSETS		
1. Entity Assets		
A. Intragovernmental		
1. Fund Balance with Treasury (Note 2)	$	41,309,330
2. Investments, Net (Note 3)		999
3. Accounts Receivable (Note 4)		454,824
4. Other Assets (Note 5)		107,903
5 Total Intragovernmental	$	41,873,056
B Accounts Receivable, Net (Note 4)		140,120
C Loans Receivable and Related Foreclosed Property, Net (Note 6)		0
D. Cash and Other Monetary Assets (Note 7)		0
E. Inventory and Related Property, Net (Note 8)		20,951,870
F General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)		23,247,177
G Other Assets (Note 5)		125,503
H. Total Entity Assets	$	86,337,726
2. Nonentity Assets		
A Intragovernmental		
1 Fund Balance with Treasury (Note 2)	$	15,906
2. Accounts Receivable (Note 4)		54,008
3 Other Assets (Note 5)		0
4 Total Intragovernmental	$	69,914
B. Accounts Receivable, Net (Note 4)		208,162
C. Cash and Other Monetary Assets (Note 7)		154,844
D. Other Assets (Note 5)		119,558
E Total Nonentity Assets	$	552,478
3. Total Assets	$	86,890,204

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Air Force
CONSOLIDATED BALANCE SHEET

As of September 30, 1999 ($ in Thousands)

	1999 FY	
LIABILITIES		
4. Liabilities covered by Budgetary Resources		
A. Intragovernmental		
1. Accounts Payable	$	913,587
2. Debt (Note 11)		0
3 Environmental Liabilities (Note 12)		0
4. Other Liabilities (Note 13)		837,717
5. Total Intragovernmental	$	1,751,304
B Accounts Payable		3,591,513
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		0
D Environmental Liabilities (Note 12)		0
E Other Liabilities (Note 13)		1,283,487
F. Total Liabilities covered by Budgetary Resources	$	6,626,304
5. Liabilities not covered by Budgetary Resources		
A. Intragovernmental		
1 Accounts Payable	$	0
2 Debt (Note 11)		0
3 Environmental Liabilities (Note 12)		0
4 Other Liabilities (Note 13)		610,033
5. Total Intragovernmental	$	610,033
B Accounts Payable		0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		1,008,314
D Environmental Liabilities (Note 12)		6,338,431
E Other Liabilities (Note 13)		2,551,601
F Total Liabilities not covered by Budgetary Resources	$	10,508,379
6. Total Liabilities	$	17,134,683
NET POSITION (Note 15)		
7. Unexpended Appropriations	$	35,945,586
8. Cumulative Results of Operations		33,809,935
9. Total Net Position	$	69,755,521
10.Total Liabilities and Net Position	$	86,890,204

The accompanying notes are an integral part of these statements.

2-2

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF NET COST
For the year ended September 30, 1999

($ in Thousands)

		FY 1999
1. Program Costs		
A Intragovernmental	$	17,051,622
B With the Public		77,077,111
C Total Program Cost	$	94,128,733
D (Less Earned Revenues)		(2,869,541)
E. Net Program Costs	$	91,259,192
2. Costs not assigned to Programs	$	0
3. (Less: Earned Revenues not attributable to Programs)		0
4. Net Cost of Operations	$	91,259,192
5 **Deferred Maintenance (See Required Supplementary Information)**		

Additional information included in Note 16

The accompanying notes are an integral part of these statements 2-3

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in Thousands)

1. Net Cost of Operations	$	91,259,192
2. Financing Sources (other than exchange revenues)		
A. Appropriations used		81,725,900
B. Taxes and other nonexchange revenue		0
C. Donations - nonexchange revenue		818
D. Imputed financing (Note 17 B)		628,858
E Transfers-in		0
F (Transfers-out)		0
G Other		0
H Total Financing Sources (other than exchange revenues)	$	82,355,576
3. Net Results of Operations (Line 2H less Line 1)	$	(8,903,616)
4. Prior Period Adjustments (Note 17.A)		(1,421,491)
5. Net Change in Cumulative Results of Operations	$	(10,325,107)
6. *Increase (Decrease) in Unexpended Appropriations*		(2,896,065)
7. Change in Net Position	$	(13,221,172)
8. Net Position-Beginning of the Period		82,976,693
9. Net Position-End of the Period	$	69,755,521

Additional information included in Note 17

The accompanying notes are an integral part of these statements

2-4

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 1999

($ in Thousands)

		FY 1999
BUDGETARY RESOURCES:		
1. Budget Authority	$	80,773,745
2 Unobligated Balance - Beginning of Period		6,404,992
3. Net Transfers Prior-Year Balance, Actual (+/-)		(50,862)
4 Spending Authority from Offsetting Collections		4,972,208
5 Adjustments (+/-)		624,253
6 Total Budgetary Resources	$	92,724,336
STATUS OF BUDGETARY RESOURCES:		
7 Obligations Incurred	$	85,415,929
8 Unobligated Balances - Available		5,839,853
9 Unobligated Balances - Not Available		1,468,554
10 Total, Status of Budgetary Resources	$	92,724,336
OUTLAYS:		
11 Obligations Incurred	$	85,415,929
12 Less· Spending Authority From Offsetting Collections and Adjustments		(7,134,374)
13. Obligated Balance, Net - Beginning of Period		34,922,383
14. Obligated Balance Transferred, Net		0
15 Less Obligated Balance, Net - End of Period		(34,001,922)
16 Total Outlays	$	79,202,016

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 1999

($ in Thousands)

		FY 1999
BUDGETARY RESOURCES:		
1 Budget Authority	$	80,773,745
2 Unobligated Balance - Beginning of Period		6,404,992
3 Net Transfers Prior-Year Balance, Actual (+/-)		(50,862)
4 Spending Authority from Offsetting Collections		4,972,209
5 Adjustments (+/-)		624,254
6. Total Budgetary Resources	$	92,724,336
STATUS OF BUDGETARY RESOURCES:		
7 Obligations Incurred	$	85,415,929
8 Unobligated Balances - Available		5,839,854
9. Unobligated Balances - Not Available		1,468,553
10. Total, Status of Budgetary Resources	$	92,724,336
OUTLAYS:		
11. Obligations Incurred	$	85,415,929
12. Less. Spending Authority From Offsetting Collections and Adjustments		(7,134,374)
13 Obligated Balance, Net - Beginning of Period		34,922,383
14 Obligated Balance Transferred, Net		0
15. Less Obligated Balance, Net - End of Period		(34,001,922)
16 Total Outlays	$	79,202,016

Additional information included in Note 18
The accompanying notes are an integral part of these statements. 2-6

Department of Defense
Department of Air Force
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 1999

($ in Thousands)		FY 1999
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:		
A. Obligations Incurred	$	85,415,929
B Less: Spending Authority for Offsetting Collections and Adjustments		(7,134,374)
C. Donations Not in the Entity's Budget		0
D Financing Imputed for Cost Subsidies		628,858
E. Transfers-in (Out)		0
F Less Exchange Revenue Not in the Entity's Budget		0
G. Other		(61)
H Total Obligations as Adjusted and Nonbudgetary Resources	$	78,910,352
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
A Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases		3,445,123
B Costs Capitalized on the Balance Sheet - (Increases)/Decreases		(8,781,259)
C. Financing Sources That Fund Costs of Prior Periods		(952,305)
D Other - (Increases)/Decreases		0
E Total Resoures That Do Not Fund Net Costs of Operations	$	(6,288,441)
3. COSTS THAT DO NOT REQUIRE RESOURCES:		
A. Depreciation and Amortization	$	1,104,760
B Revaluation of Assets and Liabilities - Increases/(Decreases)		15,218,801
C Other - Increases/(Decreases)		250,112
D Total Costs That Do Not Require Resources	$	16,573,673
4. Financing Sources Yet to be Provided		2,063,608
5. Net Cost of Operations	$	91,259,192

Additional information included in Note 19

The accompanying notes are an integral part of these statements. 2-6a

Department of Defense
Department of the Air Force
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

ASSETS

		Air Force Active		Air Force Reserve
1. Entity Assets				
A Intragovernmental				
1. Fund Balance with Treasury (Note 2)	$	39,366,423	$	749,501
2 Investments, Net (Note 3)		999		0
3 Accounts Receivable (Note 4)		917,031		21,357
4. Other Assets (Note 5)		207,109		0
5. Total Intragovernmental	$	40,491,562	$	770,858
B Accounts Receivable, Net (Note 4)		131,585		2,766
C. Loans Receivable and Related Foreclosed Property, Net (Note 6)		0		0
D Cash and Other Monetary Assets (Note 7)		0		0
E. Inventory and Related Property, Net (Note 8)		20,949,741		0
F General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)		20,832,825		410,737
G. Other Assets (Note 5)		122,333		1,805
H Total Entity Assets	$	82,528,046	$	1,186,166
2. Nonentity Assets				
A Intragovernmental				
1. Fund Balance with Treasury (Note 2)	$	15,906	$	0
2 Accounts Receivable (Note 4)		59,113		0
3 Other Assets (Note 5)		312		0
4 Total Intragovernmental	$	75,331	$	0
B. Accounts Receivable, Net (Note 4)		208,081		46
C Cash and Other Monetary Assets (Note 7)		154,844		0
D Other Assets (Note 5)		119,558		0
E Total Nonentity Assets	$	557,814	$	46
3. Total Assets	$	83,085,860	$	1,186,212

The accompanying notes are an integral part of these statements

4-1

Department of Defense
Department of the Air Force
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

ASSETS

		Combined Totals	Intra-entity eliminations
1. Entity Assets			
A. Intragovernmental			
1. Fund Balance with Treasury (Note 2)	$	41,309,330	(
2 Investments, Net (Note 3)		999	(
3 Accounts Receivable (Note 4)		1,021,194	(566,370
4. Other Assets (Note 5)		207,109	(99,206
5 Total Intragovernmental	$	42,538,632	(665,576
B Accounts Receivable, Net (Note 4)		140,120	(
C Loans Receivable and Related Foreclosed Property, Net (Note 6)		0	(
D Cash and Other Monetary Assets (Note 7)		0	(
E Inventory and Related Property, Net (Note 8)		20,951,870	(
F *General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)*		23,247,177	(
G Other Assets (Note 5)		125,503	(
H Total Entity Assets	$	87,003,302	(665,576
2. Nonentity Assets			
A Intragovernmental			
1 Fund Balance with Treasury (Note 2)	$	15,906	(
2. Accounts Receivable (Note 4)		59,113	(5,105
3 Other Assets (Note 5)		312	(312
4 Total Intragovernmental	$	75,331	(5,417
B Accounts Receivable, Net (Note 4)		208,162	(
C Cash and Other Monetary Assets (Note 7)		154,844	(
D Other Assets (Note 5)		119,558	(
E Total Nonentity Assets	$	557,895	(5,417
3. Total Assets	$	87,561,197	(670,993

The accompanying notes are an integral part of these statements

4-2

Department of Defense
Department of the Air Force
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

LIABILITIES

		Air Force Active		Air Force Reserve
4. Liabilities covered by Budgetary Resources				
A. Intragovernmental				
1 Accounts Payable	$	1,073,017	$	22,118
2 Debt (Note 11)		0		0
3 Environmental Liabilities (Note 12)		0		0
4 Other Liabilities (Note 13)		932,891		1,533
5 Total Intragovernmental	$	2,005,908	$	23,651
B Accounts Payable		3,409,081		105,358
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		0		0
D Environmental Liabilities (Note 12)		0		0
E Other Liabilities (Note 13)		1,178,512		40,514
F Total Liabilities covered by Budgetary Resources	$	6,593,501	$	169,523
5. Liabilities not covered by Budgetary Resources				
A Intragovernmental				
1 Accounts Payable	$	0	$	0
2 Debt (Note 11)		0		0
3 Environmental Liabilities (Note 12)		0		0
4 Other Liabilities (Note 13)		938,165		5,352
5. Total Intragovernmental	$	938,165	$	5,352
B. Accounts Payable		0		0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		728,718		103,984
D Environmental Liabilities (Note 12)		6,338,431		0
E. Other Liabilities (Note 13)		2,488,429		4,491
F Total Liabilities not covered by Budgetary Resources	$	10,493,743	$	113,827
6. Total Liabilities	$	17,087,244	$	283,350

The accompanying notes are an integral part of these statements

4-3

Department of Defense
Department of the Air Force
CONSOLIDATING BALANCE SHEET
As of September 30, 1999

($ in Thousands)

LIABILITIES

		Combined Totals		Intra-entity eliminations
4. Liabilities covered by Budgetary Resources				
A Intragovernmental				
1. Accounts Payable	$	1,151,144	$	(237,557)
2. Debt (Note 11)		0		0
3. Environmental Liabilities (Note 12)		0		0
4 Other Liabilities (Note 13)		936,923		(99,206)
5. Total Intragovernmental	$	2,088,067	$	(336,763)
B. Accounts Payable		3,591,513		0
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		0		0
D Environmental Liabilities (Note 12)		0		0
E. Other Liabilities (Note 13)		1,283,487		0
F Total Liabilities covered by Budgetary Resources	$	6,963,067	$	(336,763)
5. Liabilities not covered by Budgetary Resources				
A Intragovernmental				
1 Accounts Payable	$	0	$	0
2 Debt (Note 11)		0		0
3 Environmental Liabilities (Note 12)		0		0
4 Other Liabilities (Note 13)		944,263		(334,230)
5 Total Intragovernmental	$	944,263	$	(334,230)
B Accounts Payable		0		0
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		1,008,314		0
D. Environmental Liabilities (Note 12)		6,338,431		0
E Other Liabilities (Note 13)		2,551,601		0
F Total Liabilities not covered by Budgetary Resources	$	10,842,609	$	(334,230)
6. Total Liabilities	$	17,805,676	$	(670,993)

The accompanying notes are an integral part of these statements

4-4

Department of Defense
Department of the Air Force
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

NET POSITION (Note 15)	Air Force Active	Air Force Reserve	Air National Guard
7. Unexpended Appropriations	$ 34,326,169	$ 605,933	$ 1,013,484
8. Cumulative Results of Operations	31,672,447	296,929	1,840,559
9. Total Net Position	$ 65,998,616	$ 902,862	$ 2,854,043
10.Total Liabilities and Net Position	$ 83,085,860	$ 1,186,212	$ 3,289,125

NET POSITION (Note 15)	Combined Totals	Intra-entity eliminations	Consolidated Totals
7. Unexpended Appropriations	$ 35,945,586	$ 0	$ 35,945,586
8. Cumulative Results of Operations	33,809,935	0	33,809,935
9. Total Net Position	$ 69,755,521	$ 0	$ 69,755,521
10.Total Liabilities and Net Position	$ 87,561,197	$ (670,993)	$ 86,890,204

The accompanying notes are an integral part of these statements

4-5

Department of Defense
Department of the Air Force
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 1999
($ in

1. Program Costs	Air Force Active	Air Force Reserve	Air National Guard	Combined Total	Intra-entity eliminations	Consolidate
A. Military Personnel						
1. Intragovernmental	$ 2,724,766	$ 47,256	$ 182,573	$ 2,954,595		
2. With the Public	14,067,657	779,106	1,306,735	16,153,498		
3. Total Program Cost	$ 16,792,423	$ 826,362	$ 1,489,308	$ 19,108,093		
4. (Less: Earned Revenues)	(88,429)	209	(24,533)	(112,754)		
5. Net Program Costs	$ 16,703,994	$ 826,571	$ 1,464,775	$ 18,995,339		
B. Operation and Maintenance						
1. Intragovernmental	$ 12,963,822	$ 516,178	$ 1,397,744	$ 14,877,744		
2. With the Public	14,369,295	1,272,373	1,945,303	17,586,971		
3. Total Program Cost	$ 27,333,117	$ 1,788,551	$ 3,343,047	$ 32,464,715		
4. (Less: Earned Revenues)	(2,702,165)	(81,424)	(223,027)	(3,006,616)		
5. Net Program Costs	$ 24,630,952	$ 1,707,127	$ 3,120,020	$ 29,458,099		
C. Procurement						
1. Intragovernmental	$ 594,291	$ 0	$ 0	$ 594,291		
2. With the Public	26,942,421	0	0	26,942,421		
3. Total Program Cost	$ 27,536,712	$ 0	$ 0	$ 27,536,712		
4. (Less: Earned Revenues)	(148,029)	0	0	(148,029)		
5. Net Program Costs	$ 27,388,683	$ 0	$ 0	$ 27,388,683		
D. Research, Development Test && Evaluation						
1. Intragovernmental	$ 827,956	$ 0	$ 0	$ 827,956		
2. With the Public	15,674,807	0	0	15,674,807		
3. Total Program Cost	$ 16,502,763	$ 0	$ 0	$ 16,502,763		
4. (Less: Earned Revenues)	(1,807,393)	0	0	(1,807,393)		
5. Net Program Costs	$ 14,695,370	$ 0	$ 0	$ 14,695,370		
E. Military Construction/Family Housing						
1. Intragovernmental	$ 0	$ 0	$ 235	$ 235		
2. With the Public	645,330	16,825	55,905	718,060		
3. Total Program Cost	$ 645,330	$ 16,825	$ 56,140	$ 718,295		
4. (Less: Earned Revenues)	0	0	0	0		
5. Net Program Costs	$ 645,330	$ 16,825	$ 56,140	$ 718,295		

Additional information included in Note

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Air Force
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 1999
($ in

1. Program Costs	Air Force Active	Air Force Reserve	Air National Guard	Combined Total	Intra-entity eliminations	Consolidated Totals
F. Other Programs						
1. Intragovernmental	$ 2,113	$ 0	$ 0	$ 2,113		
2. With the Public	1,354	0	0	1,354		
3. Total Program Cost	$ 3,467	$ 0	$ 0	$ 3,467		
4. (Less: Earned Revenues)	(61)	0	0	(61)		
5. Net Program Costs	$ 3,406	$ 0	$ 0	$ 3,406		
G. Total Program Cost						
1. Intragovernmental	$ 17,112,948	$ 563,434	$ 1,580,552	$ 19,256,934	$ (2,205,312)	$ 17,051,6
2. With the Public	71,700,864	2,068,304	3,307,943	77,077,111	0	77,077,
3. Total Program Cost	$ 88,813,812	$ 2,631,738	$ 4,888,495	$ 96,334,045	$ (2,205,312)	$ 94,128,
4. (Less: Earned Revenues)	(4,746,077)	(81,215)	(247,560)	(5,074,853)	2,205,312	(2,869,5
5. Net Program Costs	$ 84,067,735	$ 2,550,523	$ 4,640,935	$ 91,259,192	$ 0	$ 91,259,
2. Costs not assigned to Programs	0	0	0	0	0	
3. (Less: Earned Revenues not attributable)	0	0	0	0	0	
4. Net Cost of Operations	$ 84,067,735	$ 2,550,523	$ 4,640,935	$ 91,259,192	$ 0	$ 91,259,

5. *Deferred Maintenance* (See Required Supplementary Information)

Additional information included in Note

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Air Force
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999

($ in Thousands)

		Air Force	Air Force	Air National Guard	Combined Total	Intra-entity eliminations	Consolidated Totals
1. Net Cost of Operations	$	84,067,735	$2,550,523	$4,640,935	$91,259,192	$0 $	91,259,192
2. Financing Sources (other than exchange revenues)							
A. Appropriations used		74,382,756	2,570,532	4,772,612	81,725,900	0	81,725,900
B. Taxes and other nonexchange revenue		0	0	0	0	0	0
C. Donations - nonexchange revenue		818	0	0	818	0	818
D. Imputed financing (Note 17.B)		628,858	0	0	628,858	0	628,858
E. Transfers-in		0	0	0	0	0	0
F. (Transfers-out)		0	0	0	0	0	0
G. Other		0	0	0	0	0	0
H. Total Financing Sources (other than exchange revenues)	$	75,012,432	$2,570,532	$ 4,772,612	$82,355,576	$0	$82,355,576
3. Net Results of Operations (Line 2H less Line 1)	$	(9,055,303)	$20,009	$ 131,677	$(8,903,616)	$0	$(8,903,616)
. Prior Period Adjustments (Note 17.A)		(1,368,484)	(221,395)	168,388	(1,421,491)	0	(1,421,491)
5. Net Change in Cumulative Results of Operations	$	(10,423,787)	$(201,386)	$ 300,065	$(10,325,107)	$0	$(10,325,107)
6. Increase (Decrease) in Unexpended Appropriations		(2,884,573)	10,840	(22,331)	(2,896,065)	0	(2,896,065)
7. Change in Net Position	$	(13,308,360)	$(190,546)	$ 277,734	$(13,221,172)	$0	$(13,221,172)
8. Net Position-Beginning of the Period		79,306,978	1,093,407	2,576,308	82,976,693	0	82,976,693
9. Net Position-End of the Period	$	65,998,618	$902,861	$2,854,042	$69,755,521	$0	$69,755,521

Additional information included in Note

The accompanying notes are an integral part of these statements.

4-8

)epartment of Defense
)epartment of the Air Force
:OMBINING STATEMENT OF BUDGETARY RESOURCES
'or the year ended September 30, 1999
$ in Thousands)

UDGETARY RESOURCES:		Air Force Active		Air Force Reserve		Air National Guard		Combined Total
I. Budget Authority	$	73,234,492	$	2,682,816	$	4,856,437	$	80,773,745
2. Unobligated Balance - Beginning of Period		5,989,206		207,563		208,223		6,404,992
3. Net Transfers Prior-Year Balance, Actual (+/-)		(26,838)		(25,000)		976		(50,862)
I. Spending Authority from Offsetting Collections		4,643,405		81,215		247,588		4,972,208
i. Adjustments (+/-)		656,781		(42,322)		9,795		624,253
i. Total Budgetary Resources	$	84,497,046	$	2,904,272	$	5,323,019	$	92,724,336
TATUS OF BUDGETARY RESOURCES:								
'. Obligations Incurred	$	77,537,710	$	2,748,407	$	5,129,812	$	85,415,929
I. Unobligated Balances - Available		5,716,005		31,725		92,123		5,839,853
I. Unobligated Balances - Not Available		1,243,331		124,140		101,084		1,468,554
0. Total, Status of Budgetary Resources	$	84,497,046	$	2,904,272	$	5,323,019	$	92,724,336
UTLAYS:								
1. Obligations Incurred	$	77,537,710	$	2,748,407	$	5,129,812	$	85,415,929
2. Less: Spending Authority From Offsetting Collections and Adjustments		(6,719,712)		(117,516)		(297,146)		(7,134,374)
3. Obligated Balance, Net - Beginning of Period		33,500,792		465,506		956,085		34,922,383
4. Obligated Balance Transferred, Net		0		0		0		
5. Less: Obligated Balance, Net - End of Period		(32,408,086)		(593,636)		(1,000,200)		(34,001,922)
6. Total Outlays	$	71,910,704	$	2,502,761	$	4,788,551	$	79,202,016

ıditional information included in Note 18.

ıe accompanying notes are an integral part of these statements.

4-9

Department of Defense
Department of the Air Force
DISAGGREGRATED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in

BUDGETARY RESOURCES:		Military Personnel		Operations &&		Procurement		Research, Development,Test && Evaluation
1. Budget Authority		$19,356,881	$	27,916,229	$	18,495,848	$	13,843,
2. Unobligated Balance - Beginning of Period		200,447		717,332		3,038,863		1,997,
3. Net Transfers Prior-Year Balance, Actual (+/-)		(90,750)		20,233		(1,151)		19,
4. Spending Authority from Offsetting Collections		112,754		3,016,591		117,381		1,708,
5. Adjustments (+/-)		693,123		53,566		(127,014)		5,
6. Total Budgetary Resources	$	20,272,455	$	31,723,951	$	21,523,927	$	17,574,
STATUS OF BUDGETARY RESOURCES:								
7. Obligations Incurred		19,840,075		30,971,863		17,594,855		15,831,
8. Unobligated Balances - Available		64,411		92,780		3,264,400		1,995,
9. Unobligated Balances - Not Available		367,969		659,308		664,672		(252,5
10. Total, Status of Budgetary Resources	$	20,272,455	$	31,723,951	$	21,523,927	$	17,574,
OUTLAYS:								
11. Obligations Incurred		19,840,075		30,971,863		17,594,855		15,831,
12. Less: Spending Authority From Offsetting Collections and Adjustments		(943,029)		(3,443,614)		(849,321)		(1,870,7
13. Obligated Balance, Net - Beginning of Period		1,597,224		7,946,656		18,364,815		5,637,
14. Obligated Balance Transferred, Net		0		0		0		
15. Less: Obligated Balance, Net - End of Period		(1,370,425)		(9,253,164)		(16,680,217)		(5,386,2
16. Total Outlays	$	19,123,845	$	26,221,741	$	18,430,132	$	14,211,

Additional information included in Note

The accompanying notes are an integral part of these statements.

Department of Defense
Department of the Air Force
DISAGGREGRATED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in

BUDGETARY RESOURCES:		Military Construction/ Family Housing		Other General Funds		Combined Total
1. Budget Authority	$	1,159,746	$	1,469	$	80,773,745
2. Unobligated Balance - Beginning of Period		445,939		4,732		6,404,992
3. Net Transfers Prior-Year Balance, Actual (+/-)		1,675		0		(50,862)
4. Spending Authority from Offsetting Collections		0		17,222		4,972,208
5. Adjustments (+/-)		(1,224)		0		624,253
6. Total Budgetary Resources	$	1,606,136	$	23,423	$	92,724,336
STATUS OF BUDGETARY RESOURCES:						
7. Obligations Incurred		1,157,422		20,666		85,415,929
8. Unobligated Balances - Available		419,594		2,716		5,839,853
9. Unobligated Balances - Not Available		29,120		41		1,468,554
10. Total, Status of Budgetary Resources	$	1,606,136	$	23,423	$	92,724,336
OUTLAYS:						
11. Obligations Incurred		1,157,422		20,666		85,415,929
12. Less: Spending Authority From Offsetting Collections and Adjustments		(10,471)		(17,222)		(7,134,374)
13. Obligated Balance, Net - Beginning of Period		1,376,134		265		34,922,383
14. Obligated Balance Transferred, Net		0		0		0
15. Less: Obligated Balance, Net - End of Period		(1,311,354)		(507)		(34,001,922)
16. Total Outlays	$	1,211,731	$	3,202	$	79,202,016

Additional information included in Note

The accompanying notes are an integral part of these statements.

This Page Intentionally Left Blank

DEPARTMENT OF THE AIR FORCE

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 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 incorporates into the 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 (USGSGL). Until such time as all of the Air Force's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by the SFFAS, 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 Genernal Funds have not implemented the US Government Standard General Ledger (USGSGL) 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 integrate and modernize DFAS accounting systems into a comprehensive management system. The overall goal is to bring financial data for both 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, 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.

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 moneys 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 unless otherwise noted. General PP&E land is not depreciated.

General PP&E are to be valued at historical acquisition cost. When records are not available to support the original acquisition cost of general PP&E, estimates are to be 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, shall be 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, is 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 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 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 nonenviromental 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 FY 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.

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 yearend. 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 Asset	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
e Total	$41,309,330	$15,906	$41,325,236

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
c Reconciling Amount	$0	$0

3. Explanation of Reconciliation Amount:

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

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 unsupportable because (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over 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 removed 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 amounts

Treasury:

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.

Page 2

Note 3. Investments, Net: **($ in Thousands)**

	(1) Cost Method	(2) Amortization	(3) Amortized (Premium) Discounts, Net	(4) Investment Adjustment	Other	Market Value
1. Intragovernmental						
a.	$ 0		$ 0	$ 0	$ 0	$
b. Non-Marketable, Par	0		0	0	0	
c. Non-Marketable,	999		0	999	0	9
d.	$ 999		$ 0	$ 999	$ 0	$ 9
e. Accrued	0			0	0	
f.	$ 999		$ 0	$ 999	$ 0	$ 9
2. Other						
a. Commercial	$ 0		$ 0	$ 0	$ 0	$
b. Other	0		0	0	0	
c.	$ 0		$ 0	$ 0	$ 0	$
d. Accrued	0		0	0	0	
e. Total	$ 0		$ 0	$ 0	$ 0	$
3. Total and Other	$ 999		$ 0	$ 999	$ 0	$ 9

4. Other

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) Gross Amount Due	(2) [Allowance for Estimated Uncollectibles]	(3) Net Amount Due
1. Entity Receivables:			
a. Intragovernmental	$ 454,824	N/A	$ 454,824
b. With the Public	$ 144,038	$ (3,918)	$ 140,120
2. Non-Entity Receivables:			
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 prorated 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
(4) Total Intragovernmental	$	107,903
b.		
(1) Outstanding Contract Financing Payments	$	0
(2) Adv to Contractors/Travel Adv/Prog Pmt/Excess Prop		125,503
(3) Total Other	$	125,503

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 their 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 Non-Entity Assets:

a. Intragovernmental		
(1)	$	0
(2) Advances to Contractors		0
(3) Total Intragovernmental	$	0
b Other		
(1) Advances to Contractors	$	119,558
(2)		0
(3) Total Other	$	119,558

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 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,

he entity operates the following direct loan and/or loan guarantee programs:

a. None.
b.
c.

An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections.

Direct Loans Obligated Prior to FY 1992 (Present Value Method):

Loan Guarantee Program Title	Loans Receivable Gross	Interest Receivable	Foreclosed Property	(Present Value Allowance)	Value of Assets Related To Direct Loans
	$ 0	$ 0	$ 0	$ 0	$ 0
	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

). Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

Loan Guarantee Program Title	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related To Direct Loans
	$ 0	$ 0	$ 0	$ 0	$ 0
	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

ırect Loans Obligated After FY 1991:

Loan Guarantee Program Title	Loans Receivable Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related To Direct Loans
	$ 0	$ 0	$ 0	$ 0	$ 0
	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

Note 6. Loans Receivable and Related Foreclosed Property,

4.a. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Present Value Method):

Loan Guarantee Program Title	Defauted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	(Present Value Allowance)	Defaulted Guaranteed Loans Receivable, Net Net
(1)	$ 0	$ 0	$ 0	$ 0	$ 0
(2)	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

4.b. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

Loan Guarantee Program Title	Defauted Guaranteed Loans Receivable, Gross	Interest Receivable	(Allowance for Loan Losses)	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
(1)	$ 0	$ 0	$ 0	$ 0	$ 0
(2)	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

5. Defaulted Guaranteed Loans from Post-1991 Guarantees:

Loan Guarantee Program	Defauted Guaranteed Loans Receivable, Receivable Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Guaranteed Loans Receivable
(1)	$ 0	$ 0	$ 0	$ 0	$ 0
(2)	0	0	0	0	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0

Note 6. Loans Receivable and Related Foreclosed Property,

6. Guaranteed Loans Outstanding:

Loan Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(1)	$ 0	$ 0
(2)	0	0
Total	$ 0	$ 0

7.a. Liability for Loan Guarantees (Present Value Method, Pre 1992):

Loan Program Title	Liabilities for Losses on Pre-1992 Guarantees, Present Value	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(1)	$ 0	$ 0	$ 0
(2)	0	0	0
Total	Total $ 0	$ 0	$ 0

7.b. Liability for Loan Guarantees (Estimated Future Default Claims, Pre 1992):

Loan Program Title	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Total Liabilities for Loan Guarantees
(1)	$ 0	$ 0	$ 0
(2)	0	0	0
Total	$ 0	$ 0	$ 0

Page 3

Note 6. Loans Receivable and Related Foreclosed Property,

8. Subsidy Expense for Post-1991 Direct Loans:

a. Current Year's Direct Loans

Loan Program	Interest Differential	Defaults	Fees	Other	Total
(1)	$ 0	$ 0	$ 0	$ 0	$ 0
(2)	0	0	0	0	0
Total					$ 0

b. Direct Loan Modifications and

Loan Program	Modifications	Re-estimates
(1)	$ 0	$ 0
(2)	0	0

c. Total Direct Loan Subsidy Expenses:

Loan Program	
(1)	$ 0
(2)	0
Total	$ 0

Page 4

Note 6. Loans Receivable and Related Foreclosed Property,

9. Subsidy Expense for Post-1991 Loans Guarantees:

a. Current Year's Loan Guarantees

Loan Program Title	Defaults	Fees	Interest Supplement	Other	Total
(1)	$ 0	$ 0	$ 0	0	$
(2)	0	0	0	0	
Total					$

b. Loan Guarantee Modifications and Re-estimates:

Loan Program Title	Modifications	Re-estimates
(1)	$ 0	$ 0
(2)	0	0

c. Total Loan Guarantee Subsidy Expenses:

Loan Program Title	
(1)	$ 0
(2)	0
Total	$ $0

10. Administrative Expense:

Direct Loans Loan Program Title		Loan Guarantees Loan Program Title	
(1)	$ 0	(1)	$ 0
(2)	0	(2)	0
Total	$ 0	Total	$ 0

11. Other Information:

Note 7. Cash and Other Monetary
($ in Thousands)

	Entity Assets	Non-Entity Assets
1. Cash	$ 0	$ 139,085
2. Foreign Currency	0	15,759
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, and Other Monetary Assets	$ 0	$ 154,844

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 undeposited 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
Total	$	20,951,870

Page 1

Note 8.A. Inventory, Net:
($ in Thousands)

	(1) Inventory Amount	(2) Allowance for Gains (Losses)	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
a. Available and Purchased for	$ 0	$ 0	$ 0	
b. Held in Reserve for Future	0	0	0	
c. Held for	0	0	0	
d. Excess, Obsolete, and	0	0	0	
e. Raw	0	0	0	
f. Work in	0	0	0	
g. Total	$ 0	$ 0	$ 0	

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

2. Restrictions on Inventory Use, Sale, or Disposition:

Not Applicable.

3. Other Information:

Not Applicable.

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

	(1) OM&&S Amount	(2) Allowance for Gains (Losses)	(3) OM&&S Net	(4) Valuation Method
1. OM&&S				
a. Held for	$ 18,167,729	$ 0	$ 18,167,729	SP
b. Held in Reserve for Future	2,713,604	0	2,713,604	SP
	70,537	0	70,537	
d. Total	$ 20,951,870	$ 0	$ 20,951,870	

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:

3. Other Information:
Resale
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 Sale
necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Repair
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 Unserviceable
at which this information is provided creates issues regarding the completeness and existence of the OM&S Materials
quantities used to derive the values reported in the financial statements.
Process
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 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 logistic community, is 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 of $1.4 billion and munitions reported as Excess,
Obsolete and Unserviceable of $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 $1.07 billion.

c. Excess, Unserviceable, and NRV

Categories:

Use
Use

Note 8.C. Stockpile Materials, Net:

($ in Thousands)	(1) Stockpile Materials Amount	(2) Allowance for (Losses)	(3) Stockpile Materials,Net	(4) Valuation Method
1. Stockpile				
a. Held for Sale*	$ 0	$ 0	$ 0	
b. Held in Reserve for Future Sale	0	0	0	
c Total	$ 0	$ 0	$ 0	

2. Restrictions on stockpile materials and supplies:

Not Applicable.

3. Other Information:

Not Applicable.

* Not Held for sale in the normal course of business.Legend Valuation Methods AC = Actual Cost NRV = Net Realizable Value O = Other SP = Standard Price LAC = Latest Acquisition Cost

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.

Obsolete

Page 5

Note 9. General (PP&&E), Net:
($ in Thousands)

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

2. Other

The Air Force, in FY 1999, has 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, 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 acquisition 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. A prior period adjustment was made to remove $5.0 million of Supply Management Activity Group (SMAG) facilities in FY 1999. 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) (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 or Working Capital Fund) and then to depreciate the various types of equipment according to current DoD depreciation policies and procedures. To populate the system, the Air Force logisitics 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

	A	A	A
Facilities	L		
Improvements	L		
	L		
Equipment	L		
	L		
	A	A	A
	L		

Information:

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 acquistion 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 has reached an agreement 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.

The Air Force also reported $263 million in ST/STE on the financial statements in the possesion and control of the Air Force as provided by two different systems (AMARC and Requirements Data Bank-D200J). The acquistion 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.

Note 9.A. Assets Under Capital Lease:
($ in Thousands)

ENTITY AS LESSEE
1. Capital Leases
a. Summary of Assets Under Capital Lease: 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 $ (109,355).

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.
leases.

b. Description of Lease Arrangements:
Accumulated Amortization
Other Land and Buildings
Machinery and Equipment

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 $328,604.

Note 10. Reserve For Future Use

Note 11. Debt:

($ in Thousands)	Beginning Balance	Net Borrowing	Ending Balance
1. Public Debt:			
a. Held by Government	$ 0	$ 0	$ 0
b. Held by the Public	0	0	0
c. Total Public Debt	$ 0	$ 0	$ 0
2. Agency Debt:			
a. Debt to the Treasury	$ 0	$ 0	$ 0
b. Debt to the Federal Financing	0	0	0
c. Debt to Other Federal	0	0	0
d. Held by the Public	0	0	0
e. Total Other Debt	$ 0	$ 0	$ 0
3. Total Debt	$ 0	$ 0	$ 0
4. Classification of Debt:			
a. Intragovernmental			$ 0
b. Governmental			0
c. Total			$ 0
5. Funding of Debt:			
a. Covered by Budgetary			$ 0
b. Not Covered by Budgetary			0
c. Total			$ 0

6. Other

Not Applicable.

Page 1

Note 12.A. Environmental Liabilities Covered by Budgetary

($ in Thousands)

	Current Liability	Noncurrent Liability Liability	Total
1. Intragovernmental:			
a. Accrued Restoration Costs			
(1) Active Installations	$ 0	$ 0	$ 0
(2) Base Realignment and Closure (BRAC)	0	0	0
(3) Formerly Used Defense Sites (FUDS)	0	0	0
b. Other Environmental Liabilities			
(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
Total	$ 0	$ 0	$ 0
2. With the Public:			
a. Accrued Restoration Costs			
(1) Active Installations	$ 0	$ 0	$ 0
(2) Base Realignment and Closure (BRAC)	0	0	0
(3) Formerly Used Defense Sites (FUDS)	0	0	0
b. Other Environmental Liabilities			
(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
Total	$ 0	$ 0	$ 0

3. Other Information:

Page 1

Resources:Note 12.B. Environmental Liabilities Not Covered by Budgetary Resources: ($ in Thousands)

	Current	Noncurrent	Total
1. Intragovernmental:			
a. Accrued Restoration Costs			
(1) Active Installations	$ 0	$ 0	$ 0
Installations (2) Base Realignment and Closure (BRAC)		0	0 0
(3) Formerly Used Defense Sites (FUDS)	0	0	0
b. Other Environmental Liabilities			
(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
Total	$ 0	$ 0	$ 0
2. With the Public:			
a Accrued Restoration Costs			
(1) Active Installations	$ 397,070	$ 4,330,400	$ 4,727,470
Installations (2) Base Realignment and Closure (BRAC)		174,427	607,104 78
(3) Formerly Used Defense Sites (FUDS)	0	0	0
b. Other Environmental Liabilities			
(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
Total	$ 571,527	$ 5,766,904	$ 6,338,431

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 for Active Installations and Training Ranges 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 Envronmental 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 no have detailed data beyond the FYDP.

There are future liabilities at Onizuka to cleanup 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.

Page 3

Note 13. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources:

a. Intragovernmental	Current Liability	Noncurrent Liability	Total
(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) Other 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
Total	$ 837,717	$ 0	$ 837,717
b. With the Public			
(1) Accrued Funded Payroll and Benefits	$ 1,161,133	$ 0	$ 1,
(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) Other 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
Total	$ 1,236,287	$ 47,200	$ 1,283,487

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. Page 2

Note 13. Other Liabilities:
($ in Thousands)

3. Other Liabilities Not Covered by Budgetary Resources:

a. Intragovernmental			
(1) Accounts Payable - Cancelled Appropriations	$ 2,871	$ 0	$ 2,
(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) Judgement Fund Liabilities	27,958	270,000	297,958
(7) Workmen's Compensation Reimbursement to DOL	124,302	153,402	277,704
(8) Nonenvirnmental 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
Total	$ 186,631	$ 423,402	$ 610,033
b. With the Public			
(1) Accounts Payable Cancelled	$ 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
Total	$ 2,348,782	$ 202,819	$ 2,551,601

4. Other Information:
Accounts Payable Canceled 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.

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.

Note 13. Other Liabilities:
($ in Thousands)

5. Leases:
($ in Thousands)
ENTITY AS LESSEE:
1. Capital Leases

a. Future Payments Due:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (CY+1)	$ 58,954	$ 0	$ 0	$ 58,954
Year 2 (CY+2)	59,821	0	0	59,821
Year 3 (CY+3)	25,111	0	0	25,111
Year 4 (CY+4)	25,111	0	0	25,111
Year 5 (CY+5)	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	$ 219,249	$ 0	$ 0	$ 219,249

b. Liabilities Covered by Budgetary Resources	$	0
c. Liabilities Not Covered by Budgetary Resources	$	219,249

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

($ in Thousands)

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

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

Page 1

Pensions

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

I Not applicable.

Other:	1999	1998
	5.50% in Year 1, 5.50% in Year 2, 5.55% in Year 3, 5.60% in Year 4, and thereafter	5.60% in Year 1, and thereafter

Page 2

Note 15. Net Position:
($ in Thousands)

1. Unexpended Appropriations:

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

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 (USGSGL 4801) and Undelivered
Orders Paid (USGSGL 4802) for direct appropriated funds.

Page 1

Note 16.A. Suborganization Program Costs:
Air Force GF
Supporting Schedules by Suborganization
For the year ended September 30, 1999
($ in Thousands)

	SUBORGANIZATION A	
	Program A	Program B
COSTS:		
Intragovernmental Costs	$ 0	$ 0
Public:		
Transfer Payments	0	0
Administrative Costs	0	0
Other Costs	0	0
Total Program Costs	$ 0	$ 0

	SUBORGANIZATION B		
	Program C	Program D	Program E
COSTS:			
Intragovernmental Costs	$ 0	$ 0	$ 0
Public:			
Other Costs	0	0	0
Administrative Costs	0	0	0
Total Program Costs	$ 0	$ 0	$ 0
Less Earned Revenue	0	0	0
Net Program Costs	$ 0	$ 0	$ 0

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

Page 1

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

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

Note 16.C. Cost of Stewardship Assets:

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

Note 16.D. Stewardship Assets Transferred:

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

Note 16.E. Exchange Revenue:

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

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

Not Applicable.

Note 16.G. Benefit Program Expense:

Air Force GF

For the Year Ended September 30, 1999
($ in Thousands)

1. Service Cost	$	0
2. Period Interest on the Benefit Liability	$	0
3. Prior (or Past) Service Cost	$	0
4. Period Actuarial Gains or Losses	$	0
5. Gains/Losses Due to Changes in Medical Inflation Rate	$	0
6. Total	$	0

Page 3

Note 16.H. Gross Cost and Earned Revenue by Budget Functional Classification:
($ in Thousands)

	Budget Function Code	Gross Cost	(Less Earned Revenue)	Net Cost
1. Department of Defense Military	051	$ 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 Department of Defense Military Retirement Trust Fund	602	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Education Benefits Trust Fund	702	0	0	0
6.		$ 94,128,733	$ (2,869,541)	$ 91,259,192

Assumption

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
5. Total	$	628,858

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.

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. 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	.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.

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.I. Imputed Expenses. 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.

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.

Defense

Total

Note 17. Disclosures Related to the Statement of Changes in Net Position: ($ in Thousands)

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

1. Changes in Accounting Standards	$	0
2. Errors and Omission in Prior Year Accounting Reports		4,101,925
3. Other		(5,523,416)
4. Total	$	(1,421,491)

B. Imputed Financing:

1.CRS/FERS Retirement	$	195,282
2. Health		268,001
3. Judgement Fund / Litigation		164,691
4. Life Insurance		884
5 Total	$	628,858

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

Correction of Errors and Omissions (all figures in thousands):

Increase:

Record Capital Assets under Lease (See Note 13) (Net of Accumulated Depreciation)	$235,680
Liability on Capital Leases	(235,680)

Decrease:

SMAG Working Capital Fund Facilities Removed (See Note 9) (Net of Accumulated Depreciation)	(4,995)
Accumulated Depreciation Adjustments from System Changes and Revaluations	5,831,920
Removal of Working Capital Fund Equipment	(1,725,000)
Subtotal:	$4,101,925

Other:

Increase:

Equipment in MEDLOG System Transfer (See Note 9) (Net of Accumulated Depreciation)	$71,764

D. Other Information: Judgement Fund Liability Removed (See Note 13) 171,684

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 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 (USGSGL 4801) for both direct and
reimbursable funds. Line 1 does not include Undelivered Orders Paid (USGSGL 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.

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
Total	$52.6

September 30, 1999

ACCOUNT	AMOUNT
F3875	$134.9
F3878	0.0
F3880	(8.4)
F3885	23.7
F3886	0.0
Total	$150.2

INCREASE/(REDUCTION)

ACCOUNT	AMOUNT
F3875	$124.5
F3878	0.0
F3880	(7.1)
F3885	(19.8)
F3886	0.0
Total	$97.6

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 comparing 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.

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 21A. 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	(1)	(2)	(3)	(4)
Year 1 (CY+1)	$ 58,326	$ 0	$ 0	$ 58,326
Year 2 (CY+2)	54,807	0	0	54,807
Year 3 (CY+3)	0	0	0	0
Year 4 (CY+4)	0	0	0	0
Year 5 (CY+5)	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments	$ 113,133	$ 0	$ 0	$ 113,133

Page 1

2. ENTITY AS LESSOR:

a. Capital Leases:

(1) Description of Lease Arrangements:

2. Future Projected Receipts:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
2000	$ 0	$ 0	$ 0	$ 0
2001	0	0	0	0
2002	0	0	0	0
2003	0	0	0	0
2004	0	0	0	0
After 5 Years	0	0	0	0

Total Future Capital Lease Receivable	$	0 $	0 $	0 $	0

Page 2

a. Operating Leases:

(1) Description of Lease Arrangements:

(2). Future Projected Receipts:

Fiscal Year		Asset Category (1)	(2)	(3)	Totals
2000	$	0 $	0 $	0 $	0
2001		0	0	0	0
2002		0	0	0	0
2003		0	0	0	0
2004		0	0	0	0
After 5 Years		0	0	0	0
Total Future Operating Lease Receivable	$	0 $	0 $	0 $	0

Note 21B. 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 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, and Totals (NULO):
($ in Thousands)

Treasury Index 57 Air Force Appropriations	September 1998	September 1999	Change	Percent Change
*Unmatched Disbursements	$277	$193	($83)	-30.13%
**Negative Unliquidated Obligations	$388	$201	($186)	-48.06%
Totals	$665	$394	($269)	-40.59%

* 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.

Page 3

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 yearend reporting purposes on the Yearend 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.

Page 4

This Page Intentionally Left Blank

DEPARTMENT OF THE AIR FORCE

GENERAL FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 1999
($ in Thousands)

(a) Property Type/Major Class	(b)
1. Real Property	
A. Buildings	$ 5,358,000
B. Structures	
C. Land	
2. Total	$ 5,358,000

Narrative Statement:

The Air Force Office of Civil Engineering Operation and Maintenance Division (AF/ILEO) estimates a $4.113 billion (in the Air Force Operation and Maintenance appropriation, 57 * 3400) deferred maintenance liability. It is a $5 million increase from the Fiscal Year 1998 liability. This figure comes from the Fiscal Year 1999 Facility Investment Metric (FIM) and includes amounts for Defense Working Capital facilities, heritage assets, and stewardship lands.

The Air Force Office of Civil Engineering Housing Division (AF/ILEH) estimates a $1.245 billion deferred maintenance liability. It is a $167 million increase from the Fiscal 1998 liability. This figure comes from the Fiscal Year 1999 Real Property Maintenance Model, a system which consists of housing unit assessments on a three-year cycle performed by licensed civilian architects and engineers. The figure includes amounts for heritage assets.

The Air Force Material Command Office of Civil Engineering Programs Division (AFMC/CE) reports the existence of deferred maintenance amounts (in the Air Force Research, Development and Test (RDT&E) appropriation, 57 * 3600) for buildings and structures associated with RDT&E. The figures are provided to AFMC by various RDT&E communities and include deferred maintenance amounts for equipment..

No procedures are currently in place to separate any property/plant deferred maintenance amounts into buildings, structures, or land.

National Defense Property, Plant, and Equipment
Deferred Maintenance Amounts
As of September 30, 1999
($ in Thousands)

(a) Major Type	(b)
1. Aircraft	$33,100
2. Ships	
3. Missiles	700
4. Combat Vehicles	
5. Other Weapons Systems	75,600
6. Total	$109,400

Narrative Statement:

The figures are estimated amounts from the Fiscal Year 2001 Budget Estimate Submission. The figures include amounts for Active Air Force, Air National Guard and Air Force Reserves. Other Weapons Systems include: engines ($22.5 million), software ($21.5 million), other major end items ($13.5 million), non-working capital fund exchangeables ($16 million) and area base support ($2.1 million).

The Depot Purchased Equipment Maintenance (DPEM) is a customer driven/decentralized process. The Air Logistic Centers establish the initial requirements, based on force structure, engineering requirements, flying hours, historical data and customer demands. The Major Commands review the requirements through multiple review boards, the Maintenance Requirements Review Board, the Software Requirements Review Process, the Engine Requirements Review/Managers Conferences, and Comm-Electronics Support Review. Based on this information, the Logistics Support Review is conducted to validate and schedule requirements/funding for the budget.

This Page Intentionally Left Blank

DEPARTMENT OF THE AIR FORCE

GENERAL FUNDS

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Required Supplementary Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT
For Fiscal Year Ended September 30, 1999
(Stated in Number of Systems or Items)

(a) National Defense PP&E	(b) As Of 10/01/98	(c) Additions	(d) Deletion	(e) As Of 9/30/99	(f) Condition %
1. Aircraft					
A. Combat	4,473	16	231	4,258	71
B. Airlift	1,902	20	85	1,837	94
C. Other Aircraft	2,595	17	148	2,464	69
2. Guided, Self-propelled Ordnance					
A. Missiles	69,331	-	-	80,360	76
3. Space systems					
A. Satellites	61	7	1	67	100
4. Weapon System Support Real Property					
A. Active Ammunition bunkers	4,077		37	4,040	100
B. Active Missile Silos	951		150	801	100
C. Active Satellite Ground Stations				81	100

Narrative Statement:

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense property, plant and equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in FY 1999 in the same manner as ND PP&E was reported in fiscal year (FY) 1998. For FY 1998, the DoD implemented the proposed amendments to the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 "Accounting for Property, Plant and Equipment," and No. 8, "Supplementary Stewardship Reporting." Those amendments required ND PP&E

quantities, condition and investment trends to be reported for major types of ND PP&E. Since the FASAB did not adopt the proposed amendments to SFFAS No. 6 and No. 8, in electing to report in accordance with the proposed amendments to the standards, the DoD is not in full compliance with the existing reporting requirements contained in SFFAS No. 8 (SFFAS No. 8 requires the Department to report acquisition costs). The DoD cannot fully comply with the SFFAS No. 8 reporting requirements because many of the Department's ND PP&E accountability and logistics systems do not contain a value for all or a portion of the ND PP&E assets. These systems were designed for purposes of maintaining accountability and other logistics requirements of ND PP&E, and not for reporting on the value of ND PP&E. Consequently, many of these systems do not accumulate costs or otherwise report values for individual items of ND PP&E.

The ND PP&E cost information is captured in the DoD accounting systems and reported in the Air Force's "Statement of Net Costs". However, the Air Force's accounting systems were designed to provide appropriated fund accounting reports required by the Congress, the Department and other applicable federal agencies. In addition, the Air Force's accounting systems were not designed to accumulate and retain costs for individual items of ND PP&E. Further, in many instances, even where values were recorded for some ND PP&E in some of the Air Force's systems, documentation (such as copies of purchase receipts) no longer is available to support such amounts. In part, such documentation is not available, because until recently, the Air Force was not required to maintain such documents for audit purposes. According to Title 36, Code of Federal Regulations, Chapter XII, "National Archives and Records Administration," receipts for the purchase of items such as ND PP&E are required to be retained for only 6 years and 3 months. Therefore, much of the supporting documentation that would be required to validate the reported values of ND PP&E for audit purposes no longer is available.

Due to the difficulties noted above, implementing the reporting requirements of the SFFAS No. 8 would be an enormous undertaking involving significant costs (requiring the expenditures of perhaps hundreds of millions of dollars). Given the complexity of the

Required Supplementary Stewardship Information
reporting requirements contained in the SFFAS No. 6 and SFFAS No. 8, the enormous cost of implementing those reporting requirements and the interim nature of the current reporting requirements, the Air Force is continuing its FY 1998 reporting display until such time as the Air Force has a better indication of the more permanent reporting requirements expected to be recommended by the FASAB. In the meantime, the Air Force believes that the most reasonable and responsible course of action is to report quantity information for the DoD's weapons systems until such time as the FASAB adopts permanent reporting requirements for ND PP&E.

1. Aircraft

The Air Force, as of September 30, 1999, had 8,559 aircraft in their inventory. Not included in this number are approximately 743 aircraft in salvage at the Aerospace Maintenance and Regeneration Center (AMARC) in various stages of being dismantled. The 53 aircraft added to the inventory in FY 1999 were acquired by means of contracts from the private sector. The 464 aircraft deleted were the result of sales (foreign military), reclamation projects at AMARC (dismantled) and crashes. All active and inactive aircraft, except for reclamation aircraft at AMARC, are accounted for in the Equipment Inventory, Multiple Status and Utilization Reporting System (EIMSURS), a subsystem to the Reliability & Maintainability Information Management System (REMIS). The aircraft inventory is maintained on a daily basis as to assignment, possession, and condition. Based on further research, the Air Force reclassified some of the aircraft among combat, airlift and the other category. This resulted in a restatement of the beginning inventories for this year.

2. Guided, Self-propelled Ordnance

a. The Air Force currently has 2,441 Intercontinental-range Ballistic Missiles (ICBMs) in their
active and inactive inventory, consisting of Minuteman, Peacekeeper, and air-launch cruise missiles. All complete missiles are accounted for, as to quantities and readiness, by the Equipment Inventory, multiple Status and Utilization Reporting System (EIMSURS). The Air Force also has one ICBM located at AMARC that is in the process

of being dismantled. In addition to the ICBMs, the Air Force also has 77,919 tactical missiles having some form of guidance system that allows it to steer towards, rather than be aimed at, the target. Included are surface-to-air, air-to-air, and air-to-surface missiles, consisting of Sparrows, Sidewinders, AMRAAMS, Mavericks, Harpoons, and Harms. Not included in the above data are quantities of other tactical missiles considered secret. The tactical missile inventories are maintained in the Air Force Combat Ammunition System (CAS-A), the Army's Standard Depot System (SDS), the Air Force Item Manager's Wholesale Requisition System (IMWRP) and various diverse (manual, spreadsheet) systems. As a result of the diversity of systems, numerous tactical missiles may not have been reported in FY 1998. The Air Force is in the process of interfacing all ammunition systems to avoid missing or duplicate reporting, and to provide better controls of all munitions. Until this process is completed, along with other internal systemic processes associated with Consumption Accounting, the Air Force cannot provide the quantitative data for acquisitions and deletions made during the year.

b. The Air Force systems, except for EIMSURS, could not provide data for the total number of missiles purchased (additions), or disposed of (deletions) during the course of the FY. This is due, in part, to system limitations. Most Air Force systems were designed to just keep track of inventories, not retain all data that was acquired and deleted during the year. The Air Force is working on system modifications to capture this type of data.

3. Space Systems

a. The Air Force currently has 67 unclassified satellites in either operational orbit (43) or storage with contractors (24). The 67 unclassified satellites consist of 10 DMSP, 14 DSCS, 41 GPS and 2 MILSATCOM. During 1999, 5 GPS, 1 DMSP and 1 MILSATCOM satellites were acquired from contractors. The Air Force also has other classified satellites (DSP) in operational orbit or storage that are not reported in the above quantitative data. During FY 1999, one MILSATCOM satellite, valued at approximately $1.6 billion, was destroyed during an unsuccessful launch. In addition to the above satellites, the Air Force has other miscellaneous satellites (quantity unknown) that are not reported. In most cases, these satellites are acquired or maintained out of Research, Development, Test & Evaluations funds. All Air Force national defense satellites reported as additions to the quantitative data were obtained by means of private sector contracts, while the one satellite reported as deleted was the result of a single launch

Required Supplementary Stewardship Information

failure. All satellites in operational orbit are considered to be in workable condition and are not subject to deferred maintenance.

4. Weapon System Support Real Property

The Air Force has 4,040 ammunition bunkers, 801 missile launch facilities and 81 satellite tracking and ground stations. The satellite ground stations were not reported as National Defense PP&E for 1998, but have been included this year, due to a change in policy. All active bunkers, missile launch facilities and satellite ground stations are considered in overall good condition. The facility condition was determined by visual inspection.

5. Deferred Maintenance

See Deferred Maintenance Required Supplementary Information for National Defense Property, Plant and Equipment.

Required Supplementary Stewardship Information

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT
YEARLY INVESTMENTS
For FY 1998 and FY 1999
(In Millions of Dollars)

(a)	(b)	(c)
National Defense PP&E	FY1998	FY 1999
1. Aircraft		
A. Combat	$2,028	$3,347
B. Airlift	3,381	3,973
C. Other	1,129	638
D. Aircraft Support Principal End Items		261
E. Other Aircraft Support PP&E		435
2. Guided, Self-propelled Ordnance		
A. Missiles	113	381
B. Guided, Self-propelled Ordnance Support PP&E	393	24
3. Space Systems		
A. Satellites	517	1,438
B. Space Systems Support Principal End Items	537	443
4. Weapon Systems Support Real Property	None	None

Required Supplementary Stewardship Information
Narrative Statement:

1. The yearly investment costs for aircraft, missiles and satellites along with associated support principal end items were extracted from the DOLARS-Status of Funds System, which prepares the ACCT-RPT(M)1002 report. To arrive at the costs reported, Budget Program Activity Codes (BPACs) were identified for each major category, by type (combat, airlift, other, ICBM, other missiles, and satellites). Using these BPACs, an extract was then prepared to obtain the values reported. Excluded from our extract were BPACs reported for aircraft spares, repair parts, reimbursable program cost and undistributed costs. These costs were considered to be OM&S purchases.

2. Investment values included in the report are based on outlays (expenditures). Outlays are used instead of acquisition costs, because current DoD systems are unable to capture and summarize Procurement Appropriation acquisition costs in accordance with accounting standards.

3. Aircraft (See Note 1, previous section)

4. Aircraft Support Principal End Items. The Air Force has determined that uninstalled aircraft engines and avionics pods are to be reported as aircraft support principal end items for FY 1999. All aircraft engines, both installed and uninstalled are maintained in the Comprehensive Engine Management System (CEMS). This system tracks all engines from cradle to grave and provides maintenance history for each engine. The CEMS engine managers reported a beginning balance of 6,140 uninstalled engines for the Air Force and an ending balance of 6,099 as of September 30, 1999. Of this balance, 40 percent were considered in either "built up" or "raw" serviceable condition. The Air Force has designated RAMPOD as the system of record for all electric combat and integrated system pods. Currently, the Air Force has three of the five different types of pods, totaling 2,370. This includes Electronic Warfare Countermeasures Systems pods, Air Combat Maneuvering Instrumentation Pods and Electronic Warfare Tactical Simulation Pods. The pods currently not in RAMPOD

include the Precision Attack Low Attitude Navigation and Targeting System pods and Terrain Aerial Reconnaissance System pods. These pods are scheduled to be integrated into RAMPOD by the end of FY 2000 and will be included in the FY 2000 report. RAMPOD was designed to track each pod from cradle to grave and provide accurate maintenance data in order for Air Force managers to make sound fiscal and operational decisions.

5. Other Aircraft Support PP&E. The Air Force, in FY 1999, implemented a new module to the Air Force Equipment Management System (AFEMS) to control and report all equipment, both general and ND PP&E. The Air Force has determined that assets acquired from aircraft funding (appropriation 3010) with budget code "Q" - Aircraft Weapon Systems and Peculiar Support Equipment would be considered other aircraft support PP&E. Example of this category are adapters and noise suppressor. This category includes General Mission Support PP&E. The Air Force defines General Mission Support PP&E as items acquired from various procurement funds with budget code "A". Examples of this type of equipment are engine test sets, aircraft brake test sets, and aircraft insulation test sets. All these items were acquired from the private sector by means of various contracts.

6. Guided Self-propelled Ordinance (See Note 2, previous section)

a. The Air Force has identified 2,701 ND PP&E items for Guided, Self-propelled Ordnance Support PP&E. These quantities were obtained from the Air Force Equipment Management System and includes assets acquired with missile procurement funding (Appropriation 3020) with Budget Codes "E" - Missile Replacement Equipment and Procurement, budget code "P" – Missile Weapon Systems and Peculiar Support Equipment, and budget code "H" - Nuclear Ordnances. Examples of these categories are missile altimeter testers, guided missile maintenance stands, bomb guidance test sets, and fixture test sets.

b. The Air Force, for FY 1999, has determined that missile motors to the ICBMs are considered to be Guided, Self-propelled Ordnance Support Principal End Items. In FY 1999, the Air Force had in their inventory 1,659 extra ICBM motors consisting of Minuteman I, II, III, stages 1, 2, 3, and 4s, Peacekeepers, stages 1, 2, 3, and 4s. Of this inventory, only 683 were reportedly flight worthy. These missile motors, in addition to being maintained for the ICBM program as

Required Supplementary Stewardship Information

replacement spares, are being used by the Rocket System Launch Program to launch various different types of satellites, after modifications.

5. Space Systems (See Note 3, previous section)

The Air Force has 6 unexpended launch vehicles (Titan II) that are considered to be principal end items to the satellite program. The costs associated with launch vehicles will be added to the value of the satellite successfully or unsuccessfully launched to arrive at the full cost of the satellite.

Required Supplementary Stewardship Information

HERITAGE ASSETS
For Fiscal Year Ended September 1999

(a) Collection Type	(b) Measurement Quantities	(c) As Of 10/01/98	(d) Additions	(e) Deletions	(f) As Of 9/30/99
1. Archeological Artifacts	Cubic Feet	1,752	0	0	1,752
2. Archival	Linear Feet	50,151	544	0	50,695
3. Artwork	Item	9,194	69	0	9,263
4. Historical Artifacts	Item	68,593	1,757	3,225	67,125
Non-collection Type					
5. Archeological Sites	Site	6,000	0	0	6,000
6. Buildings and Structures	Item	1,223	2,954	0	4,177
7. Cemeteries	Site	27	0	0	**27**
8. Memorials and Monuments	Item	147	4	0	151

Narrative Statement:

1. Archeological Artifacts

The above information regarding archeological artifacts reflects the total Air Force inventory as governed by 36 CFR, Part 79, Curation. In most cases, the archeological artifacts have been discovered primarily during Air Force construction activities. Items found include American Indian artifacts, such as arrowheads, weapons and pottery. In addition, artifacts from colonial Americans have been found consisting of tools, pottery, and furniture, etc. The Department of Defense has sponsored an initiative to evaluate and inventory all archeological artifacts to meet the requirements of CFR 36, Part 65, Curation of Artifacts. The U.S. Corps of Engineers, St. Louis District, managed the archeological artifact project. The district has completed an assessment of each military service and documented the Air Force collection as being in good condition.

2. Archival

Required Supplementary Stewardship Information

The above archival data pertains to the historically significant materials in the permanent collections of the Historical Research Agency located at Maxwell Air Force Base, Alabama, plus unique and permanent documentation in other Air Force historical and museum repositories. For FY 1999, two separate entities reported data for this area. The

Air Force Historian reported a beginning balance of 49,544 linear feet, acquisitions of 544 linear feet, no deletions, for an ending balance of 50,088 linear feet. The Air Force Environmental Division reported a beginning balance of 607 linear feet, no additions or deletions, and an ending balance of 607 linear feet. The items included in the collections are collected from various internal and external Air Force sources throughout the world. The increases made during the year reflect normal accessions. The Air Force rates the overall condition of the materials as good: almost all of the materials are protected in an environment suitable for long-term storage.

3. Works of Art

a. The USAF art collection, consists of paintings, drawings, sketches and sculptures. During FY 1999 it was discovered that the FY 1998 beginning inventory was misstated. The correction is reflected above. The new art works acquired during FY 1999 were paintings donated by the respective artists or by others. Most of the Air Force art collection is considered to be in good condition. The condition was determined by visual inspection of art collection as a whole.

b. The USAF Academy art collection also consists of paintings, drawings, sketches and sculptures. The USAF Academy reported a beginning inventory of 911 works of art, 1 addition to the collection, no deletions, and an ending balance of 912. The respective artists donated the new artwork acquired. The USAF Academy art collection reports that all art is in acceptable condition. The condition was also determined by visual inspection.

4. Historical Artifacts

The historical artifacts reported above are registered as historical property in the USAF Museum System, headquartered at Wright-Patterson AFB, or the Air Force Academy Museum System, located at Colorado Springs, Colorado. They consist of items that display the material culture of the Air Force and it predecessor organizations, and include advances in technology, significant persons, places, and events in Air Force history. Many of the items that are located at the USAF Museum System are one-of-a-kind, prototype, or products developed by the Research, Development, Test and Evaluation program. The USAF Museum System reported a beginning balance of 66,717 items in inventory, 1,738 items acquired, and 3,225 items deleted, with an ending balance of 65,230. Many of the items deleted were the result of paper items or less significant items being transferred to the control of major commands. The Air Force Academy reported a beginning balance of 1,876 items, acquisitions of 19, no deletions and an ending balance of 1,895. The overall condition of the collections is good; items are displayed and protected in accordance with the established standards as outlined in Air Force Instruction 84-103, USAF Museum System. In FY98, the Air Force reported the above historical artifacts under the category of Classic Weapon Systems.

5. Archeological Sites

The above information regarding archeological sites reflects the total Air Force inventory as governed by the National Historical Preservation Act. Of the total

Required Supplementary Stewardship Information

6,000 archeological sites, 13 sites are listed on the National Register of Historical Places. The remainder are eligible for listing. Examples include a "Mound", referred to as the Wright-Patterson Air Force Base Mound, constructed between 500 BC and 400 AD by the Adena people and is 8.2' high and 86' in diameter. Another example is Pre-Columbian (1000-1499 AD) petroglyphs and pictographs found on canyon walls and large rocks, consisting of bighorn sheep, deer, and various figures and other symbols. These archeological sites are located within the Desert National Wildlife Range and the Nellis Range. The Air Force archeological sites are in good condition as documented by the Air Force in their submittal to the Department of Interior, for the Federal Archeological Report for FY 1998. Each Major Command is responsible for the care and maintenance of the archeological resources under their care, in compliance with the National Historic Preservation Act, and the Archeological Resources Protection Act. The Air Force archeological resources inventory is in compliance with both laws.

6. Buildings and Structures

a. The Air Force currently considers 4,177 buildings and structures as heritage assets.

Of this number, 1,831 buildings and structures are currently on the National Register of Historical Places. In 1998, the Air Force reported only those buildings listed on the National Register as heritage assets. However, for FY 1999, the Air Force, to be in compliance with reporting requirements, has also included those building and facilities eligible for listing. This is the main reason for the 2,954 increase being reported.

b. Most of the buildings and structures reported as non-collection assets are considered to be multi-use heritage assets, and as such are being capitalized, depreciated and reported as general PP&E. In addition, deferred maintenance for these buildings are included in the General PP&E, Real Property Deferred Maintenance Table as part of the Required Supplementary Information.

c. All buildings and structures are in acceptable condition.

7. Cemeteries

The Air Force has administrative and curatorial responsibilities for 27 cemeteries on their bases. All cemeteries are maintained in an acceptable condition. The condition is determined by annual visual inspections.

8. Memorials and Monuments

Required Supplementary Stewardship Information

The memorials and monuments reported above, except for 28, are all located at the Air Force Academy in the air gardens and honor court. Most of these monuments and memorials honor specific individuals or cadet wings for various accomplishments. The 28 memorials, all with a cost that exceed $100,000, are located on various Air Force bases throughout the United States. All are reported in acceptable condition.

Required Supplementary Stewardship Information

STEWARDSHIP LAND
For Fiscal Year Ended September 1999
(Acres in Thousands)

(a) Land Use	(b) As Of 10/01/98	(c) Additions	(d) Deletions	(e) As Of 9/30/99
1. Mission	7,719			7,719
Totals	7,719			7,719

Narrative Statement:

The Air Force has 7,719,097 acres of mission-essential land under their administration. Of that amount, 7,593,473 acres were acquired through public domain, Executive Orders, Public Land Orders, Permits with the Department of Interior or Notes issued by the Air Force. The remainder of the land was obtained from private sector donations (9,494 acres), and from state and local governments (116,130 acres). Lands purchased by the Air Force, with the intent to construct buildings or facilities are considered general PP&E and are reported on the balance sheet. During the past year, no additions or deletions to Stewardship Lands were recorded. All Stewardship Land, as reported, is in acceptable condition, based on its designated use. Some Stewardship Land is used for training, i.e. bombing ranges, and will have some cleanup costs associated with its use.

In FY 1998, the Air Force reported an ending balance of 7,700,000 acres of Stewardship Land. The FY 1999 beginning balance (7,719,000) was changed to reflect the most recent change in definition of what constitutes Stewardship Land.

Information on acreage in cemeteries and monuments is not available.

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in State and Local Governments
For Fiscal Years (Preceding 4th Fiscal Year) through FY 1999
(In Millions of Dollars)

(a) **Categories**	(b) FY 1995	(c) FY 1996	(d) FY 1997	(e) FY 1998	(f) FY 1999
Transferred Assets:					
1. National Defense Mission Related					
2. Environmental Improvement					
3. Base Closure and Realignment					
4. Other					
Total					
Funded Assets:					
1. National Defense Mission Related					
2. Environmental Improvement					
3. Base Closure and Realignment					
4. Other					$16.6
Total					
Grand Total					$16.6

Narrative Statement:

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

Required Supplementary Stewardship Information

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development
For Fiscal Years 1995 through 1999
(In Millions of Dollars)

(a) Categories	(b) FY 1995	(c) FY 1996	(d) FY 1997	(e) FY 1998	(f) FY 1999
1. Basic Research	$380	$216	$228	$212	$206
2. Applied Research	599	596	650	583	562
3. Development					
Advanced Technology Development	2,074	848	652	491	483
Demonstration and Validation	2,638	914	890	1,190	1,295
Engineering and Manufacturing	3,015	4,927	4,667	4,371	4,200
Research, Development, Test and Evaluation Management Support	1,192	1,215	1,116	1,097	934
Operational Systems Development	1,791	3,909	6,232	6,798	6,810
Total	$11,689	$12,625	$14,435	$14,742	$14,490

Note: The Values reported above do not include any undistributed disbursements.

Narrative Statement:

1. Basic Research.

The Air Force's Defense Research Sciences program funded the scientific disciplines that are core to developing future warfighting capabilities. Funding was provided to twelve scientific projects, with one project focused on education programs for scientists and engineers and international programs. The scientific projects were focused on atmospherics, biological sciences, chemistry, electronics, fluid mechanics, human performance, materials, mathematical and computer sciences, physics, propulsion, space sciences, and structures. The 1999 Nobel Prize for Chemistry was awarded to an Air Force-funded California Institute of Technology researcher.

2. Applied Research

The Air Force's Applied Research program is developing technologies to support both an air and space force of the future. Technology developments are focused in those areas that are essential to future capabilities. This investment strategy recognizes the enabling technologies that are being developed by commercial industry and allows the Air Force to focus on those militarily-relevant technologies, that are not being developed by industry, in a laboratory environment.

Two examples are Defensive Information Warfare technologies, focused on protecting critical computer networks from cyber attacks, and Mighty Sat I, which examined advanced space technologies, and was successfully Shuttle-launched, tested, and deorbited in FY99.

3. Advanced Technology Development

The Air Force's Advanced Technology Development invests in a broad range of technologies of direct warfighter interest. Two areas of note are turbine engine and space technologies. The turbine engine technology development and demonstration program is focused on improved performance and increased durability. The space technology program is focused on developing and demonstrating small satellites, affordable launch-on-demand propulsion, sensors in space, space imaging, and satellite control.

4. Demonstration and Validation

Three examples of the Air Force's Demonstration and Validation efforts are: (1) Intelligence Advanced Development, which develops, demonstrates and evaluates near-real-time all source correlation/fusion capability by applying state-of-the-art data processing techniques for the receipt, correlation, templating and analysis of battlefield information necessary for transition from manual methods, (2) Airborne Laser Program, which will design, build and test a laser weapon system to acquire, track and kill Theater Ballistic Missiles immediately after launch, and (3) Advance EHF MILSATCOM, which develops and acquires satellites and cryptography with modifications of the mission control segment necessary to enable survivable, jam-resistant, worldwide, secure communications.

5. Engineering and Manufacturing Development

Three examples of the Air Force's Engineering and Manufacturing Development are: (1) Integrated Avionics Planning and Development, which will reduce avionics acquisition and support costs, increase weapons system performance and availability, and foster weapons system interoperability with standard interfaces, (2) B-1B Conventional Mission Upgrade Program (CMUP), which integrates conventional stand-off missile and smart-missile weapons technology to improve effectiveness and survivability while reducing total ownership costs, and (3) Specialized Undergraduate Pilot Training, which is a joint Air Force and Navy venture to obtain a Joint Primary Aircraft Training System and Ground Based Training Systems that will be used to train entry-level student aviators in the fundamentals of flying leading to fully qualified military pilots, navigators, and naval flight officers.

6. Research, Development, Test and Evaluation Management Support

Three examples of Research, Development, Test and Evaluation Management Support are: (1) Major Test and Evaluation Investment, which provides planning, improvements and modernization for three national asset test centers having over $10 billion of unique test facilities/capabilities operated and maintained by the Air Force for DoD test and evaluation missions, and available to others having a requirement for their unique capabilities, (2) Test and Evaluation Support, which funds the infrastructure resources to operate the Air Force test activities in the Department of Defense Major Range and Test Facility Base (MRTFB), and (3) Pollution Prevention, which funds Class 0 pollution prevention (recurring work necessary to keep major test ranges and facilities open) and Class 1 work required to eliminate dependence on ozone depleting chemicals, and to correct non-compliance with federal, state or local environmental laws and work to comply with pollution prevention Executive Orders.

7. Operational Systems Development

Required Supplementary Stewardship Information

Three examples of Operational Systems Development are: (1) Region/Sector Operations Control Center, which modernizes outdated C4I technology of the North American Aerospace Defense Command, (2) A-10 Squadrons, which develops A/OA-10 aircraft upgrades to enhance its ability to provide close air support for friendly land forces and to act as the forward air controller to coordinate and direct friendly air forces in support of land forces, and (3) the F-15E Squadrons, which exploit proven technological avionics advances and upgrades avionics, armament, airframe and engines to maintain superiority against existing all-weather detection and kill capabilities.

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11	$596,737			
Department of Agriculture	12	78			
Department of Commerce	13	5,001			
Department of the Interior	14	4,036			
Department of Justice	15	4,414			
Department of the Navy, General Funds (GF)		193,832			
Department of Labor	16	11,384			
United States Postal Service	18				
Department of State	19	22			
Department of the Treasury	20	1,606			
Department of the Army, GF	21	135,141			
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24	64			
National Credit Union Administration	25				
Federal Retirement Thrift	26				

Investment Board					
Federal Communications Commission	27				
Social Security Administration	28	1			
Federal Trade Commission	29				
Nuclear Regulatory Commission	31	261			
Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36	306			
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47	995			
Independent Agencies**	48				
National Science Foundation	49	239			
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				
Advisory Commission on Intergovernmental	55				

Relations					
Central Intelligence Agency	56				
Department of the Air Force, GF	57	2,205,312			
Federal Emergency Management Agency	58	81			
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68	455			
Department of Transportation	69	17,556			
Oversees Private Investment Corporation	71				
Agency for International Development	72	24			
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75				
Independent Agencies**	76				

Farm Credit	78				
National Aeronautics and Space Administration	80	141,849			
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86				
National Archives and Records Administration	88				
Department of Energy	89	29,795			
Selective Service System	90				
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95				
U.S. Army Corps of Engineers (Civil Works)					
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001	402			
Department of the Navy, WCF	97-4930-002	2,547			
Department of the Air Force, WCF	97-4930-003	289,698			
Other Defense Organizations,	97	779,410			

Other Defense Organizations, GF	97	779,410			
Other Defense Organizations, WCF	97-4930	563,842			
Unidentifiable Federal Agency Entity	00				
Total:		$4,985,088			$4,985,088

This PageIntentionally Left Blank

MAJOR CONTRIBUTORS TO THIS REPORT

Financial Management Division (AFAA/FSC)
Financial and Support Audits Directorate
5023 4th Street
March ARB CA 92518-1852

Robert E. Dawes, Associate Director
DSN 947-4965
Commercial (909) 655-4965

Jimmy L. Bowden, Program Manager

David E. Snyder, Audit Manager

This Page Intentionally Left Blank

FINAL REPORT DISTRIBUTION

SAF/OS
SAF/US
SAF/FM
SAF/IG
SAF/LL
SAF/PA
AF/CVA
DFAS-DE
DFAS-HQ
NGB/CF

Army Audit Agency
AU Library
DLSIE
DoD Comptroller
DoDIG-Library
GAO
GAO-Denver
Naval Audit Service
OAIG-AUD
OAIG-AUD-FA
OAIG-AUD-FD
OAIG-AUD-APTS

ACC
AETC
AIA
AFMC
AFOSI
AFRC
AFSOC
AFSPC
AMC
ANG
PACAF
USAFA
USAFE
Units/Orgs Audited

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AFPD 65-3 will make all decisions relative to release of this report to the public.

This Page Intentionally Left Blank

To request copies of this report or to suggest audit topics for future audits, contact the Operations Directorate at (703) 696-8026 (DSN 426-8026) or e-mail to reports@af.pentagon.mil. Certain government users can download copies of audit reports from our home page at www.afaa.hq.af.mil/. Finally, you may mail requests to:

Air Force Audit Agency
Assistant Auditor General (Operations)
1125 Air Force Pentagon
Washington DC 20330-1125

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
Salvatore D. Guli
Brian M. Flynn
W. Andy Cooley
John W. Barklage
Frances E. Cain
Jeffrey A. Lee
Samuel R. Mensch
Thomas G. Hare
Debra L. Sherwood
Mary K. Reynolds
Jason T. Hamilton
Noelle G. Blank