

United States Air Force Agency Financial Report Fiscal Year 2016





Table of Contents

Message from the Secretary of the Air Force	1
Message from the Assistant Secretary of the Air Force for Financial Management and Comptroller	2
Management Discussion and Analysis	
Air Force Heritage	4
Air Force in Action—FY 2016	5
Air Force Structure	7
Air Force Resources	11
Management Assertions	12
Analysis of Financial Statements	
General Fund	15
Working Capital Fund	17
Financial Statements	
General Fund	
Principal Statements	22
Notes to the Principal Statements	28
Required Supplementary Stewardship Information	84
Required Supplementary Information	98
Audit Opinion	107
Working Capital Fund	
Principal Statements	119
Notes to the Principal Statements	125
Required Supplementary Information	156
Audit Opinion	158



November 2016

Message from the Secretary of the Air Force



During FY 2016, the Air Force was fully engaged in every region of the world, in every mission area and across the full spectrum of military operations. We have never been busier on such a sustained global basis and we are accomplishing the Air Force mission with 200,000 fewer people and 79 fewer fighter squadrons than we had at the time of Operation Desert Storm. Although we were called upon many times during the last fiscal year to provide national security and to advance American interests, our total force Airmen always rose to the challenge.

Having the right people in the right job at the right time, who are trained and developed, is my number one priority. Taking care of people means recruiting, retaining and reshaping our force, so that we have the right people in the right jobs for the immediate future, as well as thinking ahead to the longer term. We are implementing a number of Airmen quality of life programs such as a career intermission program and a reduction of additional duties. Our success in performing our mission is due to the talent, skill and professionalism that Airmen provide each day.

Senior Air Force leadership is committed to providing Airmen with the weapons systems they need to perform their duties. The F-35, B-21 and KC-46 continue to be our highest acquisition priorities. In August, the F-35 was declared combat ready. The Air Force can now send our first F-35 operational unit, the 34th Fighter Squadron, into combat operations anywhere in the world. The B-21 will allow the Air Force to operate in tomorrow's high end threat environment giving the Air Force the flexibility and capability to launch from the continental United States and deliver airstrikes on any location in the world. The KC-46 completed all of its test flights and has been cleared for production. This modern tanker will help the Air Force maintain its global reach for decades to come.

Modernizing our Air Force to meet the demands of tomorrow cannot come at the expense of today's readiness. Our combat air forces are not, in the eyes of our commanders, sufficiently prepared for a high end fight. In order to improve combat readiness, we have invested in range upgrades and combat exercises. We are increasing our munitions stockpile and delaying aircraft retirements in FY 2017. These measures will enhance our readiness and will allow us to respond to any contingency throughout the world.

Driven by our commitment to making every dollar count, our efforts to advance Airmen quality of life, modernize the force and promote combat readiness are being done in a fiscally prudent manner. Our budget decisions are designed to preserve Combatant Commander's most urgent requirements in support of defense military strategy. We are working to increase accountability and transparency through our audit readiness efforts. Sound financial management will maximize the mission effectiveness of each taxpayer dollar.

I express my profound gratitude to our 660,000 Airmen. I have always been impressed with your daily efforts to protect and defend our national interests.


Deborah Lee James



November 2016

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



I am pleased to present the FY 2016 financial statements. The statements illustrate how the resources entrusted to us were employed to carry out the Air Force mission. During FY 2016, the Air Force made great strides toward our goals of publishing auditable financial statements, deploying the Defense Enterprise Accounting and Management System (DEAMS), formulating and executing budgets, and evaluating investment costs.

For the second consecutive year, our Statement of Budgetary Activity (SBA) is being examined by an independent public auditor (IPA) under the direction of the DoDIG. We are currently implementing corrective actions to remedy the internal control gaps the IPA noted during the FY 2015 SBA exam. The Air Force used the findings from the FY 2015 examination to better prepare for the FY 2016 SBA audit and the FY 2018 full financial statement audit.

The Air Force continues to make progress towards asserting to the Existence, Completeness, and Valuation of Mission Critical Assets. In November 2015, we asserted to the Existence and Completeness of Base-Possessed OM&S. We also asserted to the baseline valuation of OM&S assets including Cruise Missiles, Aerial Targets, Spare Engines, Munitions and Uninstalled Missile Motors. During FY 2015 we completed existence, completeness, and key supporting documentation testing for Real Property at 12 major bases (Phase I). We are now testing at a larger sample of bases which will be complete in December 2016. Financial managers are also working on a baseline valuation assertion of General Support Equipment and Military Equipment. Although we have made significant progress, some challenges remain. The Air Force is working to identify Real Property supporting documentation and to improve the financial reporting of government-owned property in the possession of contractors. Corrective actions are being implemented to resolve these issues.

DEAMS is the Air Force's target core accounting and financial management solution and is a key component of the long-term business process improvements needed to sustain auditability and correct financial system weaknesses. When fully deployed, DEAMS will serve as an integrated accounting and financial management system. As of October 2016, DEAMS had approximately 12,600 users at 131 locations across the Air Force and Combatant Commands.

During FY 2016, Air Force financial managers provided sound advice to commanders as we balanced top priorities against the resources available to us. As we look forward to the challenges and opportunities of FY 2017, Air Force financial managers will continue to manage allocated resources to finance Air Force operations worldwide and demonstrate good stewardship and accountability for those resources.

Ricardo A. Aguilera

Air Force Vision

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

Air Force Mission

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

Management Discussion and Analysis

Air Force Heritage



USAF aircraft of the 4th Fighter Wing (F-16, F-15C and F-15E) fly over Kuwaiti oil fires

25th Anniversary of Desert Storm

In 2016, the Air Force is observing the 25th anniversary of Operation Desert Storm. At 3:00 a.m. local time on January 17, 1991, Coalition aircraft launched the largest air campaign since the conflict in Southeast Asia. Over the next six weeks, the U.S. Air Force flew 69,000 sorties which heavily damaged critical military support networks such as command and control, communications and intelligence capabilities, integrated air defenses, and power generating sites.

The Iraqis maintained an air defense network that was twice as robust as that of Eastern Europe during the Cold War. Saddam Hussein's regime was protected by an extensive radar network, approximately 6,000 pieces of anti-aircraft artillery, more than 700 fixed-site surface-to-air missiles and 550 aircraft. Despite these formidable defenses, Air Force aircraft downed 39 Iraqi aircraft and destroyed another 375 aircraft on the ground.

Airmen used superior technology to bring about victory. Desert Storm was the first conflict to make comprehensive use of stealth and space technology. F-117 stealth fighters flew 1,300 sorties, some over downtown Baghdad. Coalition forces used over 5,000 GPS receivers in support of combat operations and over 9,300 laser-guided bombs were dropped on enemy targets.

During the conflict, 660,000 coalition forces from 12 nations deployed to the Middle East. This large scale built-up was largely enabled by the air

mobility capabilities of the Air Force. Over 465,000 tons of cargo were airlifted into theatre during an eight month period providing Coalition forces with the supplies, weapons and munitions they needed to take the fight to the enemy.

On February 28, 1991 following 6 weeks of air operations and only 100 hours after beginning the ground campaign, President Bush declared a cessation of operations. The 68,830 deployed Total Force Airmen, including 14,000 Guardsmen and Reservists, played a major role in liberating Kuwait.

Air Force Core Missions

Early airpower advocates such as Billy Mitchell understood that "the future of our nation is indissolubly bound up in the development of air power." By integrating airpower capabilities within and across air, space, and cyberspace. We are the only service that brings them together in ways that permit our sister services the freedom to maneuver without fear of attack by enemy air forces. America has only one force specifically designed and precisely employed to exploit the unique global advantages realized from operating in air, space and cyberspace. This mission can be divided into five responsibilities:

Air and Space Superiority: Not since 15 April 1953 has an enemy aircraft killed a service member in the American ground forces. Without air superiority, our military would have to radically change the way it fights, at the price of lives lost.

America's freedom to operate effectively across the spectrum of conflict also rests on its exploitation of space. As the nation's space force, the Air Force provides critical capabilities that enhance the military's capacity to navigate accurately, observe clearly, communicate securely, and strike precisely. The ability to access and exploit space, even when others try to deny us, remains vital.ⁱ

Space continues to be a contested environment. As more commercial and government entities take advantage of space, the Air Force remains committed to improving space situational awareness and command and control advantage. Space superiority is critical to U.S. national defense. Every day over 15,000 Airmen work to ensure space superiority.

Intelligence, Surveillance, and Reconnaissance (ISR):

The Air Force has embraced globally integrated ISR as one of its feature calling cards. ISR is the foundation upon which every joint, interagency, and coalition operation achieves success. Our ISR Airmen identify and assess adversary targets and tactics with greater accuracy and speed than ever seen in the history of warfare. In 2012 alone, Airmen enabled the removal of 700 enemy combatants from the fight and identified over 100 weapon caches and explosive devices that would have otherwise targeted American and partner forces. Air Force ISR is about proactively helping leaders make informed decisions on a timely basis to maintain deterrence, contain crises, or achieve success in battle. It allows policy makers to minimize uncertainty about our adversaries and their capabilities by providing knowledge that gives commanders a decision-making advantage. Globally integrated ISR permits American forces to carry out functions that they previously performed with much greater risk of danger and at higher cost.ⁱⁱ

Rapid Global Mobility: American power can be projected quickly anywhere on the earth as a result of the Air Force's ability to fly air refueling tankers and cargo planes globally on short notice. It provides swift deployment, in-flight refueling, and the means of sustaining operations from major combat to humanitarian relief. Rapid global mobility is woven into our history from the Berlin airlift to today- -an Air Force transport departs on a mission every two minutes, every day of the year.

Rapid global mobility is vitally important to every Soldier, Sailor, Marine, Airman, and Coast Guardsman because of our ability to evacuate wounded troops from the battlefield to emergency rear-area field hospitals. Airmen continue to strengthen the efforts of our government and international partners with the unique capability to get to the fight quickly, remain in the fight, and return home safely.ⁱⁱⁱ

Global Strike: Global strike means that the nation can project military power more rapidly, more flexibly, and with a lighter footprint than other military options. The Air Force's nuclear and conventional precision-strike forces can credibly threaten and effectively conduct global strike by holding any target on the planet at risk and, if necessary, disabling or destroying it. Whether from forward bases or enabled by in-flight refueling,

global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other Air Force aircraft. This capability, unmatched by any other nation or service, will grow in importance as America rebalances its force structure and faces potential adversaries who are modernizing their militaries. The Air Force will focus future efforts on updating global strike assets to ensure that American forces are prepared to act when, where, and how they are needed.^{iv}

Command and Control: Airmen execute the Air Force's other four interdependent and enduring core missions enabled by robust, adaptable, and survivable command and control systems. The Air Force provides access to reliable communications and information networks so that the joint team can operate globally. The delivery of airpower is intimately dependent upon operating effectively in cyberspace, which can increase the efficiency and effectiveness of air and space operations and help integrate capabilities across all domains. Adversaries are also making advances by linking their own combat capabilities electronically, creating military challenges that our forces must be prepared to address. The Air Force will field advanced command and control systems that are reliable, resilient, and interoperable, while recruiting and training innovative Airmen to operate them.^v

Air Force in Action--FY 2016

Operational Tempo

The Air Force maintained an aggressive operational tempo. Approximately 22,000 Airmen were deployed worldwide. We flew about 1.2 million hours last year. The Air Force, along with our coalition partners, flew 55,000 sorties in support of Operation Inherent Resolve. We delivered 1.2 billion pounds of fuel, 345,000 tons of cargo and evacuated 4,300 injured patients. The Air Force conducted over 8,000 cyber operations, which detected 29 intrusions. In addition, we executed 9,400 Intelligence, Surveillance, and Reconnaissance missions in Iraq/Syria. We supported 25 space missions in support of National Security objectives and every day 35,000 Airmen work to maintain our Nation's nuclear strategic deterrence.

Energy Conservation

The Air Force is the largest consumer of energy in the federal government. In FY 2014, the Air Force spent nearly \$9 billion for energy. We are taking steps to increase energy efficiency to maximize combat effectiveness, reduce expenditures, and safeguard the environment.

In March 2016, the Air Force established the Office of Energy Assurance. The office will develop, implement and oversee an integrated facility energy portfolio, including privately financed, large-scale clean energy projects that will provide uninterrupted access to the electricity necessary for mission success. The office will also take an enterprise-wide approach to identify and facilitate energy projects that provide resilient, cost-effective, cleaner power to Air Force installations. Having secure access to sufficient energy is one of biggest challenges facing Airmen. Natural disasters, terrorism, and political instability can impede access to energy. The Office of Energy Assurance is implementing a project developed by Air Force Research Laboratory that will demonstrate alternative energy capabilities to reduce a Forward Operating Base's reliance on diesel fuel. The Forward Operating Base of the future will employ solar panels, enhanced insulation, and environmental controls to create nano-grids which will reduce the need of diesel fuel by 85 percent.

The Air Force is teaming with commercial partners to develop flight operation best practices which reduce fuel consumption. The Air Force Research is working to develop a jet engine that will provide energy efficiency at all levels of throttle.

Humanitarian Missions

During FY 2016, the Air Force performed a number of humanitarian missions to assist victims of natural disasters. In April a magnitude-6.5 earthquake hit the region of Kumamoto in Japan and a magnitude-7.3 quake struck the southern island of Kyushu two days later. Four C-130s were deployed to transport 30 tons of supplies including food, water, and sanitation and shelter kits.

Also in April, two C-17 Globemasters transported more than 170,000 pounds of humanitarian aid to Haiti. This effort was part of the Air Force's Denton program which creates opportunities for private organizations to utilize space available on military cargo aircraft to transport goods to countries in

need. The cargo moved under the Denton program generally includes medical supplies, education supplies, furniture, vehicles, agricultural supplies, machinery, and clothing to support relief effort and development projects.

The Air Force also recently deployed a mobile air traffic control tower to Ecuador to support relief efforts for victims of a 7.8-magnitude earthquake. The Air Force personnel helped increase the flow of humanitarian aid entering the country. The mobile air traffic control is designed to quickly establish air traffic services in austere environments. The system can be fully operational within 90 minutes, providing portable, durable, and modular radio communications and air traffic services equipment.

Acquisition Excellence

The F-35A Lightning II, the KC-46A Pegasus, and the B-21 Raider continue to be the Air Force's three largest acquisition priorities. The F-35A was declared combat ready on August 2nd after extensive readiness assessments. In June 2016, seven F-35As from Hill AFB, Utah, conducted combat testing scenarios at Mountain Home AFB, ID. The two-week deployment established the aircraft's combat readiness with 88 sorties planned and executed.

The B-21 Raider is designed to be launched from the continental United States and deliver air strikes to anywhere in the world. The bomber is intended to operate in both nuclear and conventional roles, with the capability of penetrating and surviving in advanced air defense environments. Early versions of the aircraft will be piloted by an on-board crew; however, later versions will have the capability of being piloted remotely.

The KC-46A Pegasus is the Air Force's next generation tanker. The KC-46 program achieved major milestones in July. After hundreds of hours of flight testing, the tanker was cleared for production. The Air Force ordered initial production of 19 planes in a \$2.8 billion contract with Boeing. The first mission-ready Pegasus is scheduled for delivery next autumn.

Air Force Structure

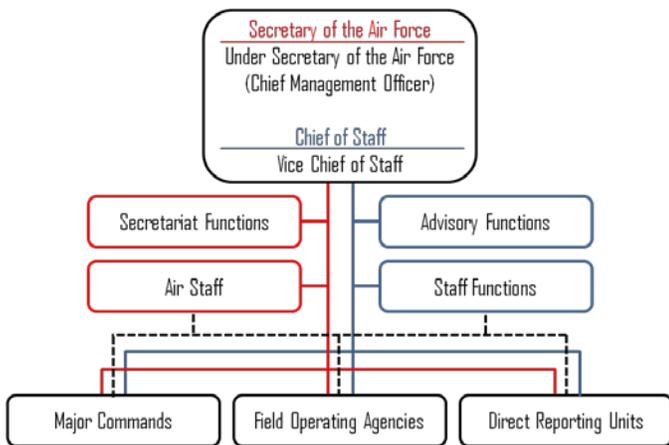
The command line of the Air Force flows from the President and the National Command Authority to the Secretary of Defense and the Department of the Air Force. The Air Force is headed by the Secretary of the Air Force (SECAF), with the Chief of Staff reporting to the Secretary (see Figure 1). Immediately subordinate to the departmental headquarters are the Major Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxiliary.



B-2 Spirit flies over Saint Louis, MO



USAF F-35 Joint Strike Fighter at Edwards AFB



Major Command Structure

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

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

The majority of individual officers and Airmen are assigned to a squadron, which may be composed of several flights. Additionally, there are other types of organizations in the Air Force structure such as centers, field operating agencies and direct reporting units.

Air Combat Command (ACC)



Mission: Air Combat Command is the primary provider of combat forces to America's warfighting commanders.

Responsibilities: To support global implementation of national security strategy, ACC operates fighter, bomber, reconnaissance, battle-management, and electronic-combat aircraft. It also provides command, control, communications and intelligence systems, and conducts global information operations.

As a force provider and Combat Air Forces lead agent, ACC organizes, trains, equips and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. Additionally, ACC develops strategy, doctrine, concepts, tactics, and procedures for air and space-power employment. The command provides conventional and information warfare forces to all unified commands to ensure air, space and information superiority for warfighters and national

decision-makers. The Command also has responsibility for inland search and rescue operations in the 48 contiguous states. ACC numbered air forces provide the air component to the Central, Southern and Northern Combatant Commands. ACC also augments forces to the European, Pacific, and Strategic Combatant Commands.

Command Personnel: 94,000

Air Education and Training Command (AETC)



Mission: Recruit, train and educate Airmen to deliver airpower for America.

Responsibilities: With a Vision of forging innovative Airmen to power the world's greatest Air Force, the command recruits, trains, and educates Airmen from over 1,400 locations worldwide to sustain the combat capability of the Air Force and the Combatant Commanders. The command must effectively develop Airmen through basic military training, technical and flying training, officer and reserve officer training, graduate and professional continuing education, and professional military education. AETC's role makes it the First Command to touch the life of every Airman.



T-37 flies over Amistad Reservoir near Laughlin AFB during a training mission

Command Personnel: 50,000

Air Force Global Strike Command (AFGSC)



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

Responsibilities: Organize, train and equip the Air Force's three intercontinental ballistic missile wings, the Air Force's entire bomber force, to include B-52, B-1 and B-2 wings, the B-21 Raider, and operational and maintenance support to organizations within the nuclear enterprise.

On October 1, 2016, the Air Force realigned the B-1 bomber fleet from Air Combat Command to AFGSC. Approximately 7,000 Airmen and 63 aircraft were transferred. The new organization will enable a single command to be responsible for the Air Force's entire long range strike fleet

Command Personnel: 31,000

Air Force Materiel Command (AFMC)



Mission: Deliver and support agile war-winning capabilities.

Responsibilities: AFMC delivers war-winning expeditionary capabilities to the warfighter through development and transition of technology, professional acquisition management, exacting test and evaluation, and world-class sustainment of all Air Force weapon systems. From cradle-to-grave, AFMC provides the work force and infrastructure necessary to ensure the United States remains the world's most respected Air and Space Force.

Command Personnel: 80,000

Air Force Reserve Command (AFRC)



Mission: To provide combat ready forces to fly, fight, and win.

Responsibilities: The AFRC augments the active component. The AFRC is extremely cost effective, providing approximately 14 percent of the total force for about 4 percent of the manpower budget and retains valuable military expertise and mission continuity on a ready-now, but called-up as needed basis. Reservists support nuclear deterrence operations, air, space and cyberspace superiority, command and control, global integrated intelligence surveillance reconnaissance, global precision attack, special operations, rapid global mobility and personnel recovery. They also perform space operations, aircraft flight testing, aerial port operations, civil engineering, security forces, military training, communications, mobility support, transportation and service missions.

Command Personnel: 67,100



C-5 Galaxy

Air Force Space Command (AFSPC)



Mission: Provide resilient and affordable space and cyberspace capabilities for the Joint Force and the Nation.

Responsibilities: Organizing, equipping, training and maintaining mission-ready space and cyberspace forces and capabilities for North American Aerospace Defense Command, U.S. Strategic Command and other combatant commands world-wide. AFSPC oversees Air Force network operations to provide capabilities in cyberspace, manages a global network of satellites, and is responsible for space system development and acquisition. It executes spacelift operations to launch satellites with a variety of expendable launch systems and operates to provide space capabilities in support of combatant commanders. AFSPC provides positioning, navigation, timing, communications, missile warning, weather and intelligence warfighting support. AFSPC operates sensors that provide direct attack warning and assessment to U.S. Strategic Command and North American Aerospace Defense Command.

Command Personnel: 38,000



45th Space Wing launches NROL-1 Spacecraft aboard Atlas V rocket

Air Mobility Command (AMC)



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

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

Command Personnel: 136,000

Air National Guard (ANG)



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

National Guard of his or her state and in the National Guard of the United States.

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

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

Responsibilities: The Air National Guard provides tactical airlift, air refueling tankers, general purpose fighters, rescue and recovery capabilities, tactical air support, weather flights, strategic airlift, special operations capabilities and aeromedical evacuation units. The ANG also provides support units, which are essential to the Air Force mission including air traffic control units, combat communications squadrons, civil engineering, communications flights and squadrons, weather flights, aircraft control and warning squadrons, a range control squadron, and an electronic security unit.

Command Personnel: 106,000

Pacific Air Forces (PACAF)



enemies.

Responsibilities: 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, covering more than 100 million square miles. The area is home to 50 percent of the world's population in 36 nations and over one-third of the global economic output. The unique location of the strategic triangle (Hawaii-Guam-Alaska) gives our nation persistent presence and options to project U.S. airpower from sovereign territory.

Command Personnel: 45,000



F-15E and F-22 fly over Prince William Sound, Alaska near Elmendorf AFB

U.S. Air Forces in Europe-Air Forces Africa (USAFE-AFAFRICA)



Mission: As the air component for both U.S. European Command (USEUCOM), and U.S. Africa Command (USAFRICOM), USAFE-AFAFRICA executes the Air Force, USEUCOM and US AFRICOM missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

Responsibilities: USAFE-AFAFRICA directs air operations in a theater spanning three continents, covering more than 19 million square miles, containing 105 independent states, and possessing more than a quarter of the world's population and more than a quarter of the world's Gross Domestic Product. USAFE-AFAFRICA has transitioned to an Air Expeditionary Force with a mobile and deployable mix of people and resources that can simultaneously operate in multiple locations. Its role in Europe and Africa has expanded from warfighting to include humanitarian and peacekeeping operations, as well as other non-traditional contingencies throughout its area of responsibility. In peacetime, USAFE-AFAFRICA trains and equips U.S. Air Force units pledged to the North Atlantic Treaty Organization (NATO) and to the peace and stability of African states.

Command Personnel: 35,000

Air Force Special Operations Command (AFSOC)



Mission: Organize, train, and equip Airmen to execute global special operations.....We are America's Air Commandos.

Responsibilities: Air Force Special Operations Command provides Air Force special operations forces (SOF) for worldwide deployment and assignment to combatant regional unified commands. The command's SOF are composed of highly trained, rapidly deployable airmen, conducting global special operations missions ranging from precision application of firepower, to infiltration, exfiltration, resupply, and refueling of SOF operational elements.

The command's special tactics squadrons combine combat controllers, special operations weathermen, pararescuemen, and tactical air control party with other service SOF to form versatile special operations teams. The command's core missions include battlefield air operations; agile combat support; aviation foreign internal defense; information operations; precision aerospace fires; psychological operations; specialized air mobility; specialized refueling; and intelligence, surveillance and reconnaissance.

Command Personnel: 19,000



AC-130 Gunship flown by Air Force Special Operations Command

Direct Reporting Unit (DRU)

A DRU is a subdivision of the Air Force that is directly subordinate to Headquarters Air Force, separate from any MAJCOM or FOA because of a unique Test and Evaluation Center.

Civil Air Patrol (CAP)

Mission: Support America's communities with emergency response aerospace education, and cadet programs.



Responsibilities: CAP conducts nearly 90 percent of the inland search and rescue missions authorized by the Air Force Rescue Coordination Center. CAP flies a wide range of other operations daily, including aerial reconnaissance missions for the Drug Enforcement Administration, supporting counterdrug operations. They also execute serial target missions to maintain combat readiness of the air defense assets, conduct special-use airspace surveys and fly orientation flights for AFROTC and AFJROTC cadets.

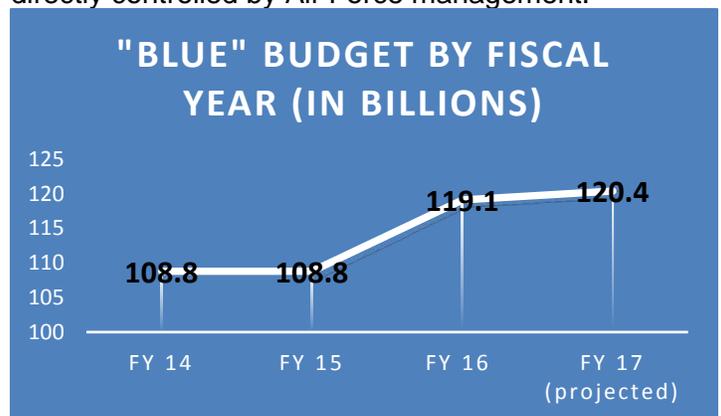
Personnel: 60,000

Field Operating Agency (FOA)

A FOA is a subdivision of the Air Force that carries out field activities under the operational control of a Headquarters U.S. Air Force functional manager. FOAs perform field activities beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit Agency, Air Force Civil Engineer Center, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

Air Force Resources

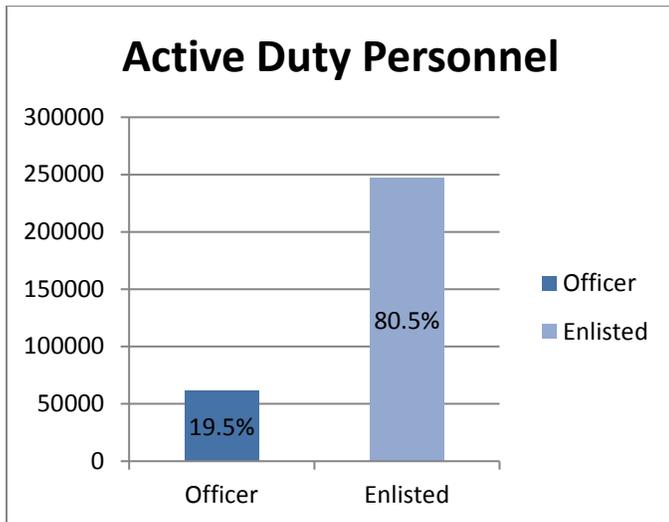
Budget: The Air Force "Blue" budget are the funds directly controlled by Air Force management.



Source: Fiscal Year 2017 Budget Overview

Personnel: The Air Force consists of 309,000 active duty, 69,200 reserve, 105,500 guard and 182,800^{vi} civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air,

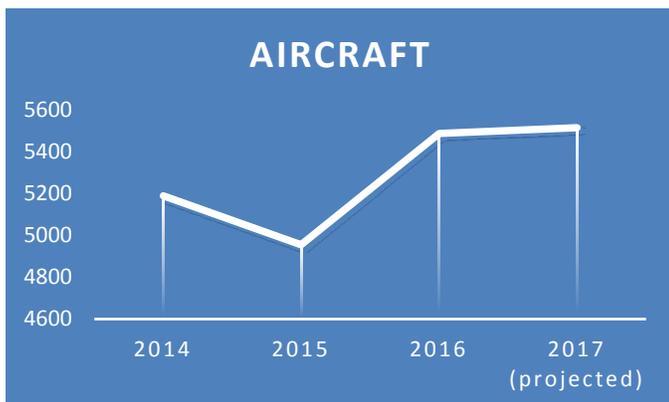
space, and cyberspace. The foundation for this is our people. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These warriors make possible the successful accomplishment of Air Force missions.



The Air Force has 12,802 pilots, 3,364 navigators and 1,419 air battle managers in the grade of lieutenant colonel and below. The Air Force has 23,804 nonrated line officers in the grade of lieutenant colonel and below.

Bases: The Air Force is a global force with facilities in the United States and around the world. The Air Force has 65 major bases in the continental United States and another 14 major bases outside the continental United States. In addition, the Air Force has 77 minor bases worldwide.

Aircraft: The Air Force has 5,205 aircraft. Flying the most technologically advanced aircraft in the world helps us maintain air superiority, provide global mobility, and gives us precision strike capability.



Source: Fiscal Year 2017 Budget Overview

Management Assertions

The objectives of the Air Force's system of internal control are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Financial information systems are compliant with the Federal Financial Management Improvement Act of 1996 (FMFIA)

The Air Force implements its internal control program at all levels and endeavors to improve the efficient and effective use of resources. Effective internal controls increase accountability and transparency.

Internal control evaluations are performed to determine whether internal controls measures are in place and operating effectively. After review, if management detects a control weakness, the cause is determined and a corrective action plan is implemented. If the weakness is deemed to be material, the progress of the corrective action to remedy the material weakness is monitored and tracked. The Air Force tracks all corrective actions, including identifying responsible personnel, milestones, and completion dates. Corrective actions are considered closed after they are confirmed to be effective through validation.

Operational Material Weaknesses: The Air Force can provide a qualified statement of reasonable assurance that operational internal controls meet the objectives of FMFIA with the exception of nine unresolved material weaknesses:

- Enterprise Information Protection Capability
- Air Force Audit Follow Up Program
- Segregation of Duties in the Defense Travel System
- Failure of the Defense Contract Management Agency to Reconcile and Close Accounts
- Overseas Housing Allowance Entitlements Not Properly Processed
- Lack of Energy Meter Management
- Classified Information System Protection-Secret Internet Protocol Router Network (SIPR)
- Air Force Review Board Agency Case Backlogs
- Lack of Information Technology Asset Management

Financial Reporting Material Weaknesses: The Air Force issued a qualified statement of reasonable assurance that internal controls over financial reporting were operating effectively, with the exception of 10 General Fund and 4 Working Capital Fund material weaknesses:

General Fund:

- Financial Reporting Deficiencies
- Lack of Oversight and Monitoring of Internal Controls
- Failure to Organize the Statement of Net Cost by Program Type
- Unsupported Journal Vouchers
- Failure to Reconcile Net Cost of Operations to Budget
- Failure to Completely Eliminate Intragovernmental Transactions/Balances
- Failure to Fully Support Environmental Liability Clean-Up Costs
- Lack of Accountability of Government-Furnished Equipment
- Inability to Value OM&S, Particularly Munitions, Using the Moving Average Cost Method
- Lack of Accountability of Contractor Possessed/Managed OM&S

Working Capital Fund:

- Failure to Track In-Transit Inventory
- Deficiencies in Spending Authority from Offsetting Earned and Collected
- Unsupported Journal Vouchers
- Failure to Completely Eliminate Intragovernmental Transactions/Balances

Integrated Financial Management System (IFMS) Material Weakness:

The unified group of Air Force financial systems do not substantially meet the Federal Financial Management Improvement Act (FFMIA), Office of Management and Budget Circular A-123, Appendix D and the Department of Defense Financial Management Regulation Volume 1, Chapter 3, requirements for compliance under the FFMIA. This material weakness applies to both the General Fund and the Working Capital Fund.

The design of legacy Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full accrual accounting basis, provide the necessary system access controls, or comply with the U.S. Standard General Ledger at the transaction level. Until the targeted enterprise

resource planning system is fully deployed, the Air Force will not be completely compliant with FFMIA, and proprietary financial reporting will be largely based on budgetary transactions and non-financial feeder systems. This material weakness applies to both the General Fund and Working Capital Fund.

OMB Circular A-123 Compliance

During the FY15 Independent Public Accountant (IPA) audit of the Air Force Schedule of Budgetary Activity (SBA), the IPA issued a Notice of Finding and Recommendation (NFR) related to Air Force's internal controls program. In summary, the Air Force was not able to provide evidence of compliance with all aspects of Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, and Air Force's Manager's Internal Control Program (MICP).

In response to the NFR, the Air Force began to address OMB Circular No. A-123 compliance in FY 2016 and has developed both short-term and long-term Plans of Action and Milestones (POA&Ms) to achieve and sustain long-term compliance with the Circular. In addition to developing POA&Ms, the Air Force performed limited effectiveness testing for a subset of controls and Complementary User Entity Controls (CUECs) in the Hire-to-Retire (Payroll) cycle that Air Force believes are designed and operating effectively and shared the results of testing with the IPA to demonstrate progress towards compliance.

During FY 2017, the Air Force intends to continue focusing on internal controls as a means to not only provide for long-term compliance with OMB Circular No. A-123 but also to support sustainment of audit readiness efforts and corrective actions, which will serve as a catalyst for achieving an unmodified opinion on Air Force's financial statements. We will continue to test the design and operating effectiveness of the most material business process and IT controls and will continue our efforts to ensure the proper "tone from the top" reinforces the importance of a robust enterprise-wide internal controls program.

Progress Towards Auditability

Achieving and sustaining financial auditability remains an enterprise-wide priority and the Air Force is working diligently to achieve financial statement audit readiness by 30 September 2017. After undergoing two SBA audit cycles, we have

made great strides in enhancing our audit infrastructure and further validating the execution of our Financial Improvement and Audit Readiness (FIAR) strategy. During the FY 2016 SBA audit, we received both new Notifications of Findings and Recommendations (NFRs) as well as a reissuance of NFRs from the FY 2015 SBA audit. The Air Force closed 84 of the 225 NFRs (40 Financial and 185 IT) from the FY 2015 SBA audit and issued memos to the IPA acknowledging implementation of corrective actions.

Significant efforts are underway to address key areas resulting from the FY 2015 and FY 2016 SBA audit cycles, including the validation of the universe of transactions underlying the SBA. The Air Force continues to work with our service provider, Defense Finance and Accounting Service (DFAS) to continue progress with the Air Force General Fund SBA Universe of Transactions, completing significant reconciliations needed to ensure data completeness, maturing our internal control environment around existing SBA reconciliations, and improving timely performance of those reconciliations. As the Air Force continues to leverage DEAMS to process additional transaction volumes and conduct financial reporting activities, we are working in parallel to establish sustainable and automated processes for producing audit artifacts around the universe of transactions. From an information systems standpoint, key areas of improvement and focus include account management and interfaces, with the majority of systems having developed or revised policies around granting access, recertification, and management of annual recertification.

We have advanced our efforts to assert to the Existence, Completeness, and Valuation of Mission Critical assets. In years past, we have asserted to the Existence and Completeness of military equipment, Air Force held munitions, cruise missiles, aerial targets, base possessed spare parts, and spare engines. We have substantially completed military equipment baseline valuation for priority one programs, which represent approximately 97 percent of the military equipment net book value. Military equipment comprises approximately 85 percent of the General Equipment amount reported on the Balance Sheet. The Air Force has completed Real Property physical inventories and key supporting documentation reviews at 48 installations. We have made strides defining a universe of transactions.

Some challenges remain such as identifying and extracting old transactions, especially those more than ten years old; establishing a universe of transactions for mission critical assets; and implementing a mission critical asset valuation strategy that is compliant with federal accounting standards. We continue to resolve deficiencies based on established priorities, focusing on areas with the greatest impact on the Air Force's goal of full financial statement audit readiness.

Defense Enterprise Accounting and Management System (DEAMS)

The Air Force is deploying the Defense Enterprise Accounting and Management System (DEAMS) as part of our effort for FFMIA compliance. DEAMS is an enterprise resource planning system designed to manage the Air Force General Fund and elements of the Transportation Working Capital Fund. DEAMS uses the Oracle e-Business Suite to meet federal financial system requirements and comply with federal accounting standards. SAF/FM declared DEAMS Initial Operational Capability in May 2015 and deployments continue throughout the Air Force. As of October 2016, DEAMS will have approximately 12,600 users at 131 locations across the Air Force and Combatant Commands.

DEAMS will facilitate substantial long term improvements by sharing financial data, automating the processing of transactions between business partners, and will reduce both manual processes and offline processing. In addition, DEAMS has adopted the Standard Financial Information Structure which allows information to be shared seamlessly with other DoD components and enables consistent reporting for Congress, Office of the Secretary of Defense and Air Force senior leaders. This will further advance the Air Force's efforts of readily publishing timely, reliable and auditable financial statements.

Analysis of Financial Statements

The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations of the Government. The Notes to the Principal Statements provide more detail on the appropriations. The major appropriations in the

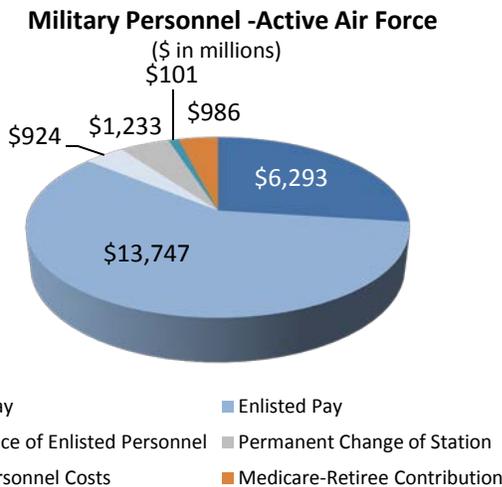
Air Force General Fund and their uses are introduced below.

Air Force General Fund

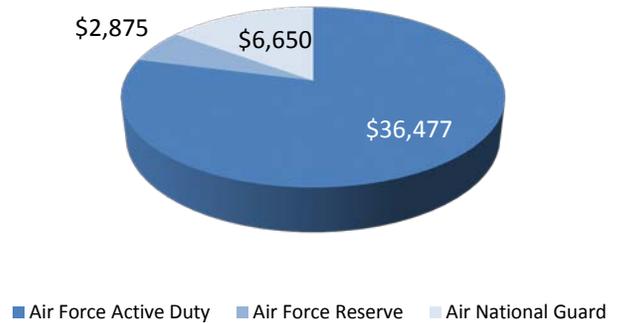
The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations of the Government. The Notes to the Principal Statements provide more detail on the appropriations. The major appropriations in the Air Force General Fund and their uses are introduced below.

Military Personnel (MILPERS)

This appropriation provides funding for the care and payroll of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel, including regular pay, allowances, and bonuses. Additionally, this appropriation funds all Permanent Change of Station (PCS) moves and supports a total force (active, reserve and guard) of 483,700.



FY 2016 "Blue" O&M Expenditures
(\$ in millions)



O&M-Air Force Total Force Blue TOA

Air Force Total Force TOA (\$ in millions)	FY 16 Expenditure
Flying Operations	\$18,151
Civilian Pay	\$11,162
Installation Support and FSRM	\$6,483
Space/Other Combat Forces	\$6,030
Logistics Ops and Air Force-Wide Support	\$2,136
Training and Recruiting	\$1,022
Mobility Forces	\$1,018
Air Force O&M "Blue" TOA Total	\$46,,002

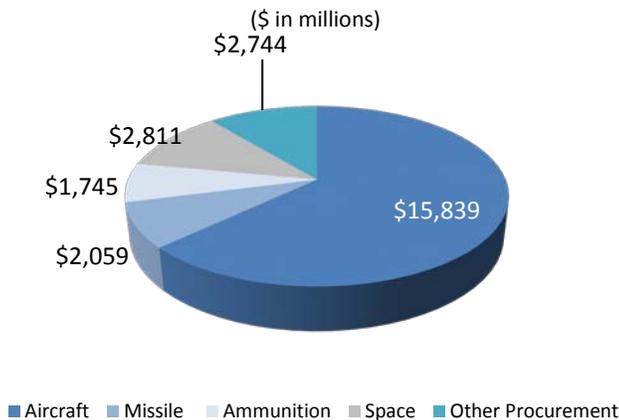
Procurement

This appropriation provides for purchase of aircraft, missiles, vehicles, electronic and telecommunications equipment, satellite and launch equipment, and base maintenance and support equipment. The Air Force balanced modernization efforts with recapitalization efforts to invest in future capabilities needed for a high-end fight.

Operations & Maintenance (O&M)

This appropriation funds readiness programs critical to prepare forces to conduct combat operations. These include day-to-day operating costs such as flying hours, space operations, depot maintenance, training, spare parts, facilities, base operations and civilian pay. The FY 2016 appropriation supported 79 major installations, including operations at two space lift ranges and 1.2 million flying hours.

FY 2016 "Blue" Procurement



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

The RDT&E appropriation funds basic and applied scientific research as well as future weapon systems development, test and evaluation. Basic research involves the scientific study and experimentation related to long-term national security, while applied research is the systematic study to understand the means to meet a recognized and specific national security requirement.

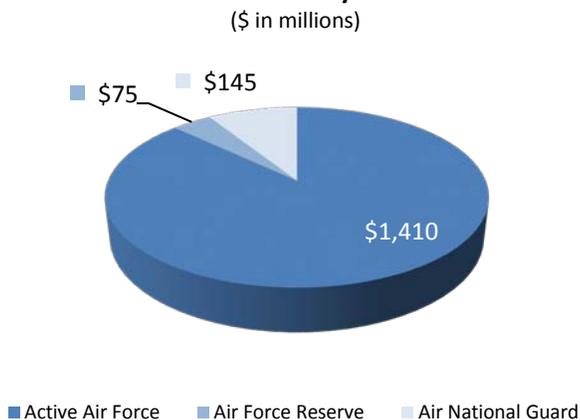
"Blue" Procurement (\$ in millions)	FY 16 Expenditure
Combat Aircraft	\$5,720
Airlift Aircraft	\$4,568
Modification of In-Service Aircraft	\$2,725
Aircraft Support Equipment and Facilities	\$1,331
Other Aircraft	\$864
Aircraft Spares and Repair Parts	\$631
"Blue" Procurement Total	\$15,839

RDT&E Major Programs (\$ in millions)	FY 16 Expenditure
Science and Technology	\$2,481
Test and Evaluation	\$859
Long Range Strike-Bomber	\$736
F-35 Engineering & Manufacturing Development	\$587
GPS III-OCX	\$349
Technology Transition	\$267
F-22 Squadrons	\$232
F-15E Squadrons	\$206
Combat Rescue Helicopter	\$156
Presidential Aircraft Recapitalization	\$82

Military Construction.

The Military Construction appropriation funds large scale facility construction projects supporting Total Force Airmen. The enacted FY 2016 military construction was \$1.630 billion.

FY 2016 Military Construction



Military Family Housing (MFH)

The Military Family Housing appropriation funds the Air Force's effort to provide quality homes to Airmen and their families in government-owned and leased units. The Air Force uses the Family Housing Master Plan as a guide to investment planning and programming for military construction, operations and maintenance, and military family housing privatization.

Military Family Housing (\$ in millions)	FY 16 Expenditure
MFH Operating and Maintenance	331
MFH-Construction Improvements	151
MFH-Construction Planning and Design	10
Total MFH Expenditures	492

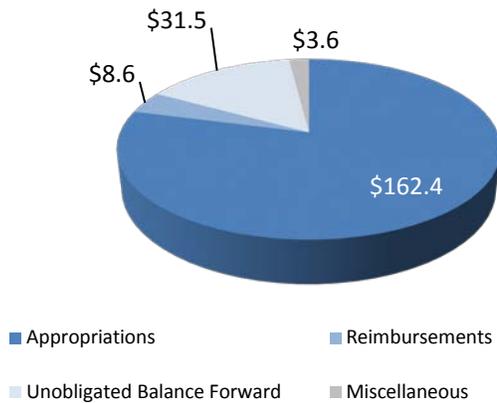
Base Realignment and Closure (BRAC)

The law authorizes Base Realignment and Closure accounts to fund one-time costs that are a result of BRAC-directed actions. In FY 2016 the Air Force expended \$65 million to fund environmental restoration and property management.

Results of Operation

The Combined Statement of Budgetary Resources presents total budgetary resources of \$206.1 billion that were available to the General Fund during FY 2016. Total budgetary resources for FY 2015 were \$191.5 billion. Total obligations incurred in FY 2016 were \$172.8 billion compared to \$160.0 billion for FY 2015.

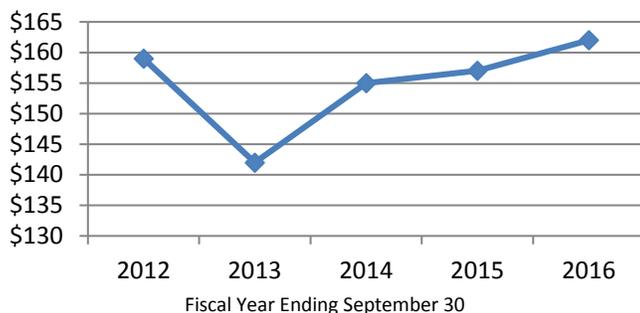
General Fund Sources of Funds, FY 2016
(\$ in billions)



Statement of Net Cost

The Combined Statement of Net Cost presents net cost of operations of \$162.4 billion during FY 2016 compared to \$156.8 for FY 2015. Net Cost of Operations represents gross costs incurred by the General Fund less earned revenue.

AFGF Net Cost of Operation, FY 2012- 2016
(\$ in Billions)

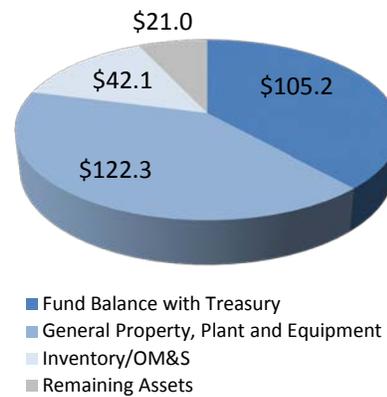


Financial Position

The General Fund continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2016, net position totaled \$274.6 billion. As of September 30, 2015 net position totaled \$277.4 billion.

Total assets were \$300.6 billion as of September 30, 2016, compared to \$301.1 billion as of September 30, 2015. Total liabilities were \$26.0 billion as of September 30, 2015, compared to \$23.7 billion

General Fund Total Assets, FY 2016
(\$ in Billions)



Air Force Working Capital Fund

The Air Force Working Capital Fund (AFWCF) conducts business in two primary areas: the Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group-Retail (SMAG-R). Air Force Materiel Command (AFMC) manages more than 90 percent of the AFWCF business activity for Supply Management and Depot Maintenance activities. These functions provide goods and services to the Air Force and DoD customers, as well as customers outside the DoD (e.g., local and foreign governments).

In FY 1998 the Air Force was appointed the Executive Agent for Transportation Working Capital Fund (TWCF) cash. Even though AFWCF manages TWCF's cash, daily operations are managed by the United States Transportation Command. As a result, TWCF's financial statements are reported with other Defense Agencies.

Consolidated Sustainment Activity Group (CSAG)

CSAG is an AFWCF business activity chartered for operation in FY 2009. The mission of CSAG is supply management of reparable and Air Force managed consumable items as well as maintenance services.

The **CSAG Maintenance Division** repairs systems and spare parts to ensure readiness in peacetime and to provide sustainment for combat forces in wartime. This division operates on the funds received from its customers through sales of its services. In peacetime, the Air Force enhances readiness by efficiently and economically repairing, overhauling and modifying aircraft, engines, missiles, components and software to meet customer demands.

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

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

The **CSAG Supply Division** is primarily responsible for Air Force-managed, depot-level reparable spares and consumable spares unique to the Air Force. Spares are an individual part, subassembly, or assembly supplied for the maintenance or repair of systems or equipment. In addition to management of these inventories, the Supply Division provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation.

Supply Management Activity Group—Retail

The Air Force Supply Management Activity Group-Retail (SMAG-R) is comprised of three divisions: General Support, Medical-Dental, and the United States Air Force Academy.

The Air Force SMAG-R provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal,

distribution management and transportation. Consumable item inventories are an integral part of SMAG-R and are maintained by each of the divisions in support of customer requirements.

The **General Support Division (GSD)** manages nearly 1.4 million items, which are procured from Defense Logistics Agency (DLA) and General Services Administration (GSA). GSD customers use the majority of these items to support field and depot maintenance of aircraft, ground and airborne communication and electronic systems, as well as other sophisticated systems and equipment. The GSD also manages many items related to installation, maintenance, and administrative functions.

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

The **Air Force Academy Division** finances the purchase of uniforms and uniform accessories for sale to cadets in accordance with regulations of the Air Force Academy and related statutes. The customer base consists of approximately 4,000 cadets who receive distinctive uniforms procured from various manufacturing contractors.

Air Force Working Capital Fund Customers

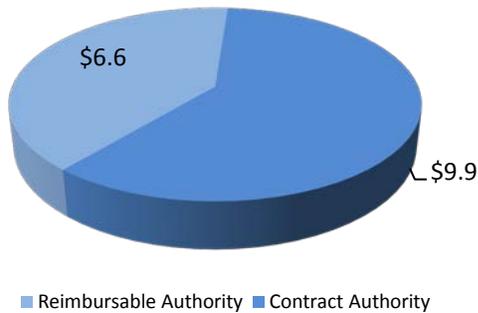
AFWCF provides support to a variety of customers: Air Force Major Commands (including the Air National Guard & Air Force Reserves), the Army, the Navy, other WCFs, other government agencies and foreign countries.

Results of Operation

Available Resources:

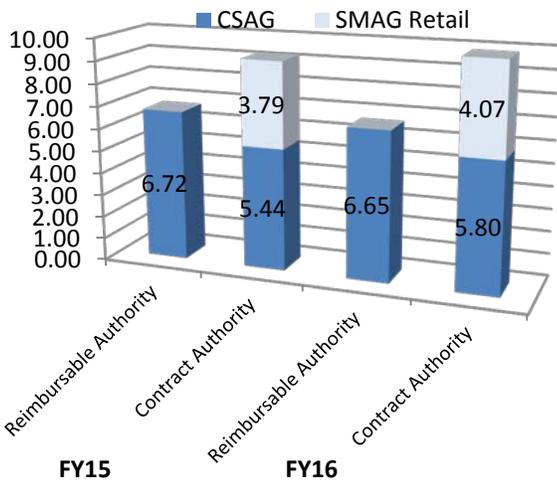
The combined Statement of Budgetary Resources presents total budgetary resources of \$16.5 billion that were available to AFWCF during FY 2016 and the status of those resources at fiscal year-end. Total budgetary resources consist of reimbursable Customer Orders Accepted and Contract Authority Used. For comparison, total budgetary resources for fiscal year-end 2015 were \$15.4 billion. The pie chart below is the graphic representation of the ratio between the Customer Orders Accepted and the Contract Authority Used in FY 2016.

AFWCF Sources of Funds, FY 2016
(\$ in Billions)



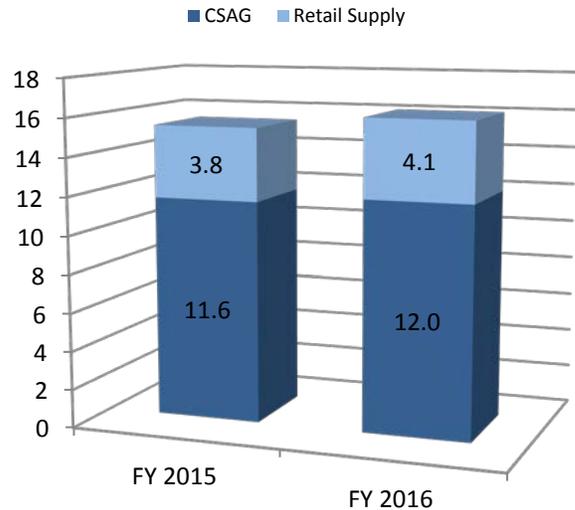
The following chart is a two year comparative of how those resources were distributed between CSAG and SMAG-R.

Distribution of Resources by Activity Group
(\$ in Billions)



The combined FY 2016 year end Statement of Budgetary Resources presents the total obligations incurred during FY 2016 of \$16.1 billion, compared to \$15.4 billion during FY 2015. The chart below is a two year comparative of how those obligations were distributed between CSAG and SMAG-R.

Two Year Comparison of Total Obligations by Activity Group
(\$ in Billions)



The net difference between the FY 2016 total budgetary resources and the total obligations incurred during FY 2016 is the Available Budgetary Resources of \$1,424.8 million. This balance will carry forward and become the opening balance for AFWCF FY2017 operations. For comparison, the FYE 2015 Available Budgetary Resources for AFWCF were \$1,392.9 million.

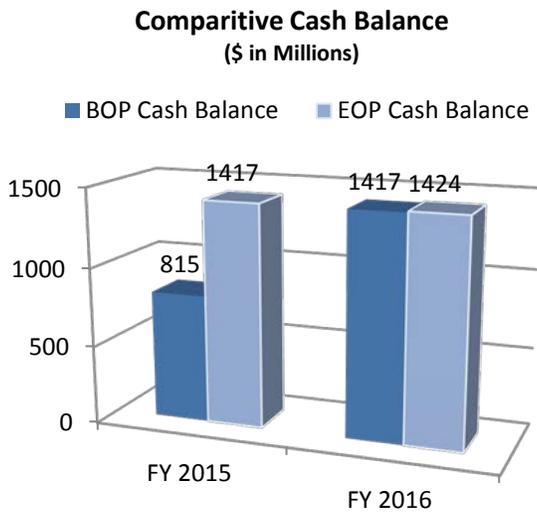
Cash Management

The AF manages working capital fund cash at the Department level. This cash is made up of both Air Force and the USTRANSCOM cash balances and is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTRANSCOM is included with the Other Defense Organizations reporting which is separate from the AFWCF. Thus, the table below presents cash balances for AFWCF less TWCF.

The current methodology for calculating cash requirements consists of four components; rate, range, risk mitigation, and reserves.

In determining required cash levels, AF documents average disbursements and the expected range of cash volatility, adjusted to accommodate seasonality, known changes in the business environment, and the inherent risk associated with estimation error and unplanned events outside management's control.

The AFWCF FY 2016 lower limit was \$735 million and the upper limit was \$1,807 million. AFWCF yearend cash balance, \$1,424 million, is within limits. The chart below depicts the comparative cash position.



ⁱ Welsh, Mark. 2014. *Global Vigilance, Global Reach, Global Power for America*, Air & Space Power Journal, March-April, page 6.

ⁱⁱ Welsh, Mark. 2014. *Global Vigilance, Global Reach, Global Power for America*, Air & Space Power Journal, March-April, page 6-7.

ⁱⁱⁱ Welsh, Mark. 2014. *Global Vigilance, Global Reach, Global Power for America*, Air & Space Power Journal, March-April,

page 7.

^{iv} Welsh, Mark. 2014. *Global Vigilance, Global Reach, Global Power for America*, Air & Space Power Journal, March-April, page 8.

^v Welsh, Mark. 2014. *Global Vigilance, Global Reach, Global Power for America*, Air & Space Power Journal, March-April, page 9.

Fiscal Year 2016

Annual Financial Statements

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31, United States Code, Section 3515 (b). While the statements have been prepared from the books and records of the entity, in accordance with U.S. generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board, and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

General Fund

Principal Statements

Fiscal Year 2016

The FY 2016 Department of the Air Force General Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the General Fund for the fiscal year ending September 30, 2016, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2015.

The following statements comprise the Department of the Air Force General Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2016 and 2015 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2016 and 2015.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2016 and 2015, the status of these resources at September 30, 2016 and 2015, and the outlay of budgetary resources for the years ended September 30, 2016 and 2015.

Consolidated Statement of Changes in Net Position-Dedicated Collections

The Consolidated Statement of Changes in Net Positions-Dedicated Collections presents the collection of earmarked fund for the years ended September 30, 2016 and 2015.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2016 and 2015. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."

Department of the Air Force
CONSOLIDATED BALANCE SHEET
As of September 30, 2016 and 2015
(\$ in Thousands)

	<u>2016 Consolidated</u>	<u>2015 Consolidated</u>
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 115,189,737	\$ 105,151,532
Investments (Note 4)	899	954
Accounts Receivable (Note 5)	471,995	514,349
Other Assets (Note 6)	141,535	168,885
Total Intragovernmental Assets	<u>\$ 115,804,166</u>	<u>\$ 105,835,720</u>
Cash and Other Monetary Assets (Note 7)	\$ 60,184	\$ 64,240
Accounts Receivable, Net (Note 5)	210,085	326,703
Inventory and Related Property, Net (Note 9)	42,076,994	54,997,937
General Property, Plant and Equipment, Net (Note 10)	122,321,227	122,216,363
Other Assets (Note 6)	20,081,622	17,635,029
TOTAL ASSETS	<u><u>\$ 300,554,278</u></u>	<u><u>\$ 301,075,992</u></u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,021,975	\$ 2,012,406
Other Liabilities (Note 15 & 16)	891,936	1,183,959
Total Intragovernmental Liabilities	<u>\$ 2,913,911</u>	<u>\$ 3,196,365</u>
Accounts Payable (Note 12)	\$ 3,681,195	\$ 3,513,528
Military Retirement and Other Federal	1,043,523	1,083,880
Employment Benefits (Note 17)		
Environmental and Disposal Liabilities (Note 14)	10,405,478	8,382,297
Other Liabilities (Note 15 and Note 16)	7,937,077	7,488,373
TOTAL LIABILITIES	<u><u>\$ 25,981,184</u></u>	<u><u>\$ 23,664,443</u></u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	124,168,615	112,260,490
Cumulative Results of Operations - Dedicated	25,948	52,304
Collections (Note 23)		
Cumulative Results of Operations - Other Funds	150,378,531	165,098,755
TOTAL NET POSITION	<u><u>\$ 274,573,094</u></u>	<u><u>\$ 277,411,549</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 300,554,278</u></u>	<u><u>\$ 301,075,992</u></u>

Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)	<u>2016 Consolidated</u>	<u>2015 Consolidated</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 165,151,059	\$ 174,190,840
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	165,151,059	174,190,840
Budgetary Financing Sources:		
Appropriations used	147,796,863	147,437,395
Nonexchange revenue	2,598	3,098
Donations and Forfeitures of Cash and Cash Equivalents	10,321	35,511
Transfers-in/out without reimbursement	566,089	457,134
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(230,597)	(3,094,771)
Imputed financing from costs absorbed by others	680,182	645,519
Other (+/-)	(1,184,145)	2,293,123
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	147,641,311	147,777,009
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	162,387,891	156,816,790
Net Change	(14,746,580)	(9,039,781)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	150,404,479	165,151,059
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 112,260,490	\$ 109,490,258
Beginning balances, as adjusted	112,260,490	109,490,258
Budgetary Financing Sources:		
Appropriations received	164,994,144	152,777,757
Appropriations transferred-in/out	829,322	727,153
Other adjustments (+/-)	(6,118,478)	(3,297,283)
Appropriations used	(147,796,863)	(147,437,395)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	11,908,125	2,770,232
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	124,168,615	112,260,490
Net Position	274,573,094	277,411,549

Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)

	<u>2016 Combined</u>	<u>2015 Combined</u>
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	31,546,107	25,747,449
Unobligated balance brought forward, Oct 1, as adjusted	\$ 31,546,107	\$ 25,747,449
Recoveries of unpaid prior year obligations	4,732,871	5,185,216
Other changes in unobligated balance (+ or -)	(1,171,215)	(1,389,846)
Unobligated balance from prior year budget authority, net	35,107,763	29,542,819
Appropriations (discretionary and mandatory)	162,421,175	152,964,678
Spending Authority from offsetting collections (discretionary and mandatory)	8,598,331	8,996,721
Total Budgetary Resources	<u>206,127,269</u>	<u>191,504,218</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	172,781,434	159,986,111
Unobligated balance, end of year:		
Apportioned, unexpired accounts	26,589,444	24,487,205
Exempt from apportionment, unexpired accounts	12,165	10,680
Unapportioned, unexpired accounts	415	0
Unexpired unobligated balance, end of year	26,602,024	24,497,885
Expired unobligated balance, end of year	6,743,811	7,020,222
Unobligated balance, end of year (total)	<u>33,345,835</u>	<u>31,518,107</u>
Total Budgetary Resources	<u>206,127,269</u>	<u>191,504,218</u>
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	75,741,009	78,988,542
New obligations and upward adjustments	172,781,434	159,986,111
Outlays (gross) (-)	(159,731,612)	(158,048,428)
Recoveries of prior year unpaid obligations (-)	(4,732,871)	(5,185,216)
Unpaid obligations, end of year	84,057,960	75,741,009
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,218,230)	(2,348,723)
Change in uncollected pymts, Fed sources (+ or -)	(146,215)	158,493
Uncollected pymts, Fed sources, end of year (-)	(2,364,445)	(2,190,230)
Memorandum Entries:		
Obligated balance, start of year (+ or -)	<u>73,522,779</u>	<u>76,639,819</u>
Obligated balance, end of year (+ or -)	<u>81,693,515</u>	<u>73,550,779</u>

Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)	2016 Combined	2015 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	171,019,506	161,961,399
Actual offsetting collections (discretionary and mandatory) (-)	(9,419,873)	(10,028,463)
Change in uncollected payments, Federal	(146,215)	158,493
Sources (discretionary and mandatory) (+ or -)		
Recoveries of prior year paid obligations (discretionary and mandatory)	967,757	873,248
Budget Authority, net (total) (discretionary and mandatory)	<u>162,421,175</u>	<u>152,964,677</u>
Outlays, gross (discretionary and mandatory)	159,731,612	158,048,428
Actual offsetting collections (discretionary and mandatory) (-)	(9,419,873)	(10,028,463)
Outlays, net (total) (discretionary and mandatory)	150,311,739	148,019,965
Distributed offsetting receipts (-)	174,080	(5,987)
Agency Outlays, net (discretionary and mandatory)	<u>150,485,819</u>	<u>148,013,978</u>

Department of the Air Force
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2016 and 2015
(\$ in Thousands)

	<u>2016 Consolidated</u>	<u>2015 Consolidated</u>
Program Costs		
Gross Costs	\$ 167,228,887	\$ 162,026,207
Military Personnel	35,194,459	34,377,674
Operations, Readiness & Support	54,583,996	54,564,462
Procurement	49,903,402	46,814,740
Research, Development, Test & Evaluation	25,582,053	24,922,948
Family Housing & Military Construction	1,964,977	1,346,383
	<hr/>	<hr/>
(Less: Earned Revenue)	(4,840,996)	(5,209,417)
Net Cost before Losses/(Gains) from Actuarial Assumption	<hr/> 162,387,891	<hr/> 156,816,790
Changes for Military Retirement Benefits		
Net Program Costs Including Assumption Changes	162,387,891	156,816,790
Net Cost of Operations	<hr/> \$ 162,387,891 <hr/>	<hr/> \$ 156,816,790 <hr/>

General Fund

Fiscal Year 2016

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Note 1.	Significant Accounting Policies
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1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the Air Force is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Air Force is unable to fully implement all elements of USGAAP and OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Air Force derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The Air Force continues to implement process and system improvements addressing these limitations.

The Air Force has eleven auditor-identified financial reporting and financial system material weaknesses: (1) Financial Reporting Weaknesses including our inability to compile a complete universe of transactions, (2) Incomplete Existence and Completeness of Government Furnished Equipment, (3) Failure to Use Historical Cost to Value Munitions, (4) Incomplete Reporting of Contractor Managed and Possessed Operating Materials and Supplies, (5) the Use of an Integrated Financial Management System Not in Compliance with the Federal Financial Management Improvement Act, (6) Environmental Clean-Up Costs Cannot Be Supported, (7) Journal Vouchers Not Supported with Proper Documentation, (8) Failure to Eliminate Intragovernmental Transactions, (9) Failure to Report Program Costs on the Statement of Net Cost, (the Air Force reports costs by major appropriation group funded by Congress), (10) Failure to Reconcile Net Costs of Operations to Budget and (11) Oversight and Monitoring Weaknesses.

The Air Force has five Significant Deficiencies: (1) Fund Balance with Treasury-The Air Force cannot always resolve outstanding unreconciled items within the Treasury Department's 60 day guideline, (2) Unsupported Accounts Receivable Balances, (3) Unsupported Accounts Payable Balances (4) the Inability to Consistently Recover All Costs Incurred to Execute a Reimbursable Order and (5) Unsupported Valuation of Property, Plant and Equipment.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947 and operates under the direction, authority, and control of the Secretary of the Air Force. The Air Force's overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to "Aim High...Fly, Fight, Win" in air, space, and cyberspace. The Air Force carries out its mission by adhering to a strategic framework of core values consisting of Integrity First, Service Before Self, and Excellence in All We Do. In addition, the Air Force is committed to providing Global Vigilance, Global Reach, and Global Power, while defending and protecting the United States.

1.C. Appropriations and Funds

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

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The Air Force is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for funds from dedicated collections.

The Air Force is a party to allocation transfers with other federal agencies as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

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

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

AF Account Number	Title
57 * 0704	Military Family Housing, Operations and Maintenance (O&M) and Construction, Air Force
57 * 0740	Military Family Housing (Construction), Air Force
57 * 0745	Military Family Housing, Operations and Maintenance (O&M), Air Force
57 * 0810	Environmental Restoration, Air Force
57 * 1007	Medicare Eligible Retiree Health Fund Contributions, Air Force
57 * 1008	Medicare Eligible Retiree Health Fund Contributions, Air Force Reserve
57 * 1009	Medicare Eligible Retiree Health Fund Contributions, Air National Guard
57 * 3010	Aircraft Procurement, Air Force

57 * 3011	Procurement of Ammunition, Air Force
57 * 3020	Missile Procurement, Air Force
57 * 3080	Other Procurement, Air Force
57 * 3300	Military Construction, Air Force
57 * 3400	Operations and Maintenance (O&M), Air Force
57 * 3500	Military Personnel, Air Force
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), Air Force
57 * 3700	Personnel, Air Force Reserve
57 * 3730	Military Construction, Air Force Reserve
57 * 3740	Operations and Maintenance (O&M), Air Force Reserve
57 * 3830	Military Construction, Air National Guard
57 * 3840	Operations and Maintenance (O&M), Air National Guard
57 * 3850	Personnel, Air National Guard
57 X 5095	Wildlife Conservation, etc., Military Reservations, Air Force
57 X 8418	Air Force Cadet Fund
57 X 8928	Air Force General Gift Fund
57 * 3XXX (Incl Nonentity)	Budget Clearing Accounts
57 * 6XXX (Nonentity)	Deposit Fund Accounts
57 **** (Nonentity)	Receipt Accounts

1.D. Basis of Accounting

The Air Force is unable to meet all full accrual accounting requirements. This is primarily because many of the Air Force's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The Air Force's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Air Force's sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Air Force level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all Air Force financial and nonfinancial feeder systems and processes are able to collect and report financial information as

required by USGAAP, there will be instances when the Air Force's financial data will be derived from budgetary transactions or data from nonfinancial feeder systems.

1.E. Revenues and Other Financing Sources

The Air Force receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for Working Capital Funds. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Air Force recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Air Force's standard policy for services provided as required by OMB Circular A-25, User Charges. The Air Force recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

In accordance with Statement of Financial Accounting Standards (SFFAS) Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financing Accounting," the Air Force recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The Air Force does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. Some accounts such as civilian pay, military pay, and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by USGAAP. The Air Force uses the consumption method to recognize expense for Operating Materials and Supplies (OM&S). OM&S are expensed when consumed per DoD guidelines.

Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Air Force continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Air Force cannot accurately identify intragovernmental transactions by customer because the Air Force's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2-Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While the Air Force is unable to fully reconcile intragovernmental transactions with all federal agencies, the Air Force is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank,

Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the Air Force by another federal entity. The Air Force recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; and (3) losses in litigation proceedings.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the Air Force's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DoD including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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

The Air Force conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other

appropriations require adjustments to the original obligation amount at the time of payment. The Air Force does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not applicable

1.M. Inventories and Related Property

The Air Force manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Air Force's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Air Force holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S and stockpile materiel. The majority of OM&S, with the exception of munitions not held for sale, are valued using the moving average cost method. Munitions not held for sale are valued at standard purchase price. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. The Air Force determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than general equipment. The Air Force determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

The Air Force recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel.

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

The Air Force reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The Air Force's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Air Force invests in nonmarketable market-based U.S. Treasury securities issued to federal agencies by the U.S. Treasury's Bureau of the Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

1.O. General Property, Plant and Equipment

In some instances, the Air Force uses the estimated historical cost for valuing equipment. To establish a baseline, the Department accumulated information relating to program funding and associated equipment, equipment useful life, program acquisitions, and disposals. The equipment baseline was updated using expenditure, acquisition and disposal information.

The Air Force General Fund capitalizes General PP&E acquisitions that are \$1 million and greater. The capitalization threshold for information technology equipment, internally developed software and real property is \$250 thousand. These capitalization thresholds apply to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds (\$100 thousand for equipment and \$20 thousand for real property). The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires the Air Force to maintain, in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Air Force has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Air Force has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Air Force records the applicable asset as though it was purchased with an offsetting liability and depreciates it. The Air Force records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Air Force are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Air Force's Balance Sheet.

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Air Force may provide financing payments. Contract financing payments are

defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The Air Force has fully implemented this policy.

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

1.S. Contingencies and Other Liabilities

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

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

Other liabilities also arise as a result of anticipated disposal costs for Air Force assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. In addition DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs. The Air Force does not recognize contingent liabilities associated with nonenvironmental disposals due to immateriality.

1.T. Accrued Leave

The Air Force reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

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

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

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Air Force purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Air Force continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for summary level adjustments made to accounts payable and accounts receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Air Force accounts payable and receivable trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Air Force and are not recognized on the Balance Sheet. Fiduciary activities are reported on the financial statement note schedules.

1.Y. Military Retirements and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not Applicable.

Note 2. Nonentity Assets

As of September 30	2016	2015
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 515,916	\$ 86,083
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 515,916	\$ 86,083
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 60,184	\$ 64,240
B. Accounts Receivable	1,824	8,570
C. Other Assets	0	3,000
D. Total Nonfederal Assets	\$ 62,008	\$ 75,810
3. Total Nonentity Assets	\$ 577,924	\$ 161,893
4. Total Entity Assets	\$ 299,976,354	\$ 300,914,099
5. Total Assets	\$ 300,554,278	\$ 301,075,992

Relevant Information for Comprehension

Nonentity assets are assets for which the Air Force maintains stewardship accountability and reporting responsibility but are not available for the Air Force's normal operations.

Intragovernmental Fund Balance with Treasury represents amounts in Air Force's deposit fund and two suspense fund accounts (Uniformed Services Thrift Savings Plan Suspense and Thrift Savings Plan Suspense) that are not available for Air Force use.

Nonfederal Accounts Receivable include interest receivable that upon collection is remitted to the U.S. Treasury as miscellaneous receipts.

Nonfederal Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by the Air Force Disbursing Officers as agents of the U.S. Treasury. The Nonfederal Cash and Other Monetary assets represent a fiduciary capacity held by Air Force Disbursing Officers as agents for U.S. Treasury and are not available for use in operations.

Nonfederal Other Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for the financing of cost-type contracts with nonprofit educational research institutions for experimental research and development work when several contracts or a series of

contracts require financing by advance payments. These funds are not available for use in Air Force operations.

Note 3. Fund Balance with Treasury

As of September 30	2016	2015
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	\$ 115,021,635	\$ 105,046,975
B. Revolving Funds	0	0
C. Trust Funds	14,208	18,171
D. Special Funds	2,641	2,787
E. Other Fund Types	151,253	83,599
F. Total Fund Balances	\$ 115,189,737	\$ 105,151,532
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 115,194,473	\$ 105,160,194
B. Fund Balance per Agency	115,189,737	105,151,532
3. Reconciling Amount	\$ 4,736	\$ 8,662

Relevant Information for Comprehension

Other Fund Types primarily consist of deposit funds and receipt accounts. These funds represent receipts held temporarily for distribution to another fund or entity or held as an agent for others.

The Air Force shows a reconciling amount of \$4.7 million with U.S. Treasury, which is comprised of the net value of the following:

- (\$22.6) million in allocation transfers from Air Force (known as the Parent Agency) to the Department of Transportation (DoT) (known as the Child Agency). These funds are reported in the Fund Balance with Treasury (FBWT) on the Air Force Trial Balance but are not included in the FBWT at the Treasury of the United States (TUS) via the Governmentwide Accounting System (GWA) because TUS reports these balances under DoT. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.
- \$25.8 million in allocation transfers to Air Force (known here as the Child Agency) from other agencies (known as Parent Agencies). These are not reported in the FBWT on the Air Force Trial Balance but they are included in the FBWT at TUS in GWA. The Foreign Military Sales-Military Assistance Program (FMS-MAP), the Department of Agriculture and the Department of Transportation record these balances in their FBWT on their respective Trial Balances. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.
- \$1.5 million in an unavailable receipt account due to it being the Savings Deposit Program (SDP) which is a fiduciary activity. These funds are not reported in the FBWT on the Air Force Trial

Balance and are only reported as part of the Fiduciary Cash balances on Footnote 24, however, the balance is included in the FBWT by TUS in CARS.

Status of Fund Balance with Treasury

As of September 30	2016		2015	
(Amounts in thousands)				
1. Unobligated Balance				
A. Available	\$	26,601,610	\$	24,497,885
B. Unavailable		6,744,225		7,020,222
2. Obligated Balance not yet Disbursed	\$	84,057,960	\$	75,741,009
3. Non budgetary FBWT	\$	151,253	\$	83,599
4. Non FBWT Budgetary Accounts	\$	(2,365,311)	\$	(2,191,183)
5. Total	<u>\$</u>	<u>115,189,737</u>	<u>\$</u>	<u>105,151,532</u>

Relevant Information for Comprehension

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. The items reported as Nonbudgetary FBWT account comprises the FBWT for suspense, deposit and receipt accounts.

NonFBWT Budgetary Accounts reduce the Status of FBWT. The items that comprise the amount reported as NonFBWT receipts are from investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances.

Note 4.	Investments and Related Interest
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As of September 30	2016				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	895		(8)	887	887
5. Total Nonmarketable, Market-Based	895		(8)	887	887
B. Accrued Interest	12			12	12
C. Total Intragovernmental Securities	\$ 907		\$ (8)	\$ 899	\$ 899
2. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A

As of September 30	2015				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0.00
3. US Army Corps of Engineers	0		0	0	0.00
4. Other Funds	953		0	953	953
5. Total Nonmarketable, Market-Based	953		0	953	953
B. Accrued Interest	1			1	1
C. Total Intragovernmental Securities	\$ 954		\$ 0	\$ 954	\$ 955
4. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A

Relevant Information for Comprehension

The U.S. Treasury securities are issued to authorized funds and are an asset to the Air Force and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated is deposited in the U.S. Treasury and used for general Government purposes. Since the Air Force and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The U.S. Treasury securities provide the Air Force with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government used the same method to finance all other expenditures.

Intragovernmental Securities (Other Funds) primarily represents the Air Force Gift Fund investment in U.S. Treasury Securities.

Note 5.	Accounts Receivable
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As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	\$ 471,995	N/A	\$ 471,995
Nonfederal Receivables (From the Public)	\$ 233,174	\$ (23,089)	\$ 210,085
Total Accounts Receivable	<u>\$ 705,169</u>	<u>\$ (23,089)</u>	<u>\$ 682,080</u>

As of September 30	2015		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	\$ 514,349	N/A	\$ 514,349
Nonfederal Receivables (From the Public)	\$ 343,259	\$ (16,556)	\$ 326,703
Total Accounts Receivable	<u>\$ 857,608</u>	<u>\$ (16,556)</u>	<u>\$ 841,052</u>

Relevant Information for Comprehension

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

Note 6.	Other Assets
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As of September 30	2016	2015
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 141,535	\$ 168,885
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 141,535	\$ 168,885
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 20,070,478	\$ 17,618,136
B. Advances and Prepayments	11,144	13,893
C. Other Assets (With the Public)	0	3,000
D. Total Nonfederal Other Assets	\$ 20,081,622	\$ 17,635,029
3. Total Other Assets	\$ 20,223,157	\$ 17,803,914

Relevant Information for Comprehension

Nonfederal Other Assets (With the Public) is comprised exclusively of advance payment pool agreements with nonprofit educational institutions. These agreements are funded under cost-type contract procedures and are mainly for experimental research and development requirements.

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

The balance of Outstanding Contract Financing Payments includes both \$17.2 billion in contract financing payments and \$2.9 billion in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Note 7.	Cash and Other Monetary Assets
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As of September 30	2016		2015	
(Amounts in thousands)				
1. Cash	\$	38,684	\$	46,232
2. Foreign Currency		21,500		18,008
3. Other Monetary Assets		0		0
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$	60,184	\$	64,240

Relevant Information for Comprehension

The amount reported as cash and foreign currency consists primarily of cash held by Disbursing Officers. The foreign currency amount reported is valued at U.S. Treasury's prevailing exchange rate, which is the most favorable rate available to the Government for foreign exchange transactions. Foreign currency is primarily used to make vendor disbursements and to exchange U.S. dollars for military personnel.

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but are not available for use in its operations. These assets are held by Air Force Disbursing Officers as agents of U.S. Treasury. The total balance of \$60.2 million is restricted.

Note 8.	Direct Loans and Loan Guarantees
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Not applicable

Note 9.	Inventory and Related Property
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As of September 30	2016	2015
(Amounts in thousands)		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	42,076,994	54,997,937
3. Stockpile Materiel, Net	0	0
4. Total	\$ 42,076,994	\$ 54,997,937

Relevant Information for Comprehension

General Composition of OM&S

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

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

Restrictions on the Use of OM&S

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

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

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

The category Held for Repair generally includes all economically repairable materiel as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DLM 4000.25-2-M). The category Held for Repair represents suspended, unserviceable (but repairable) items recorded at Moving Average Cost (MAC) or standard price.

The category Held as Excess, Obsolete, and Unserviceable includes all materiel that managers determine to be more costly to repair than to replace. Items retained for management purposes which are beyond economic repair are coded "condemned." These items are held until proper disposal can be made. Excess, Obsolete, and Unserviceable are valued at zero. This allowance results in a zero value to the Air Force.

Operating Materiel and Supplies (OM&S) Value

The OM&S data reported on the financial statements are derived from logistics systems designed for materiel management purposes. Some of these systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."

In general, the Air Force uses the consumption method of accounting for OM&S, since OM&S is defined in SFFAS No. 3 as materiel that has not yet been issued to the end user. Once issued, the materiel is expensed. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

Other Air Force Disclosures

In the past, the Air Force provided only minimal OM&S accounting data that can be used to prepare the financial statements but has made considerable strides in improving the systems to provide actual transactions for completing the financial statements. However, in some cases, the data provided still consists of only beginning and ending balances for each of the asset accounts Held for Use; Excess, Obsolete, and Unserviceable; and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the Defense Finance and Accounting Service can only report the net change between prior period ending balances and the values reported as current period ending balances.

Inventory, Net

Not applicable

Operating Materials and Supplies, Net

As of September 30	2016			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	\$ 6,298,146	\$ 0.00	\$ 6,298,146	SP, LAC, MAC
B. Held for Repair	35,778,848	0.00	35,778,848	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	123,478	(123,478)	0.00	NRV
D. Total	\$ 42,200,472	\$ (123,478)	\$ 42,076,994	

As of September 30	2015			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	\$ 30,063,910	\$ 0	\$ 30,063,910	SP, LAC, MAC
B. Held for Repair	24,934,027	0	24,934,027	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	583,705	(583,705)	0.00	NRV
D. Total	\$ 55,581,642	\$ (583,705)	\$ 54,997,937	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	
AC = Actual Cost	O = Other	

Stockpile Materiel, Net

Not applicable.

Note 10.	General Property, Plant & Equipment, Net
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As of September 30	2016				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	\$ 441,027	N/A	\$ 441,027
B. Buildings, Structures, and Facilities	S/L	20 Or 40	81,090,030	\$ (44,852,645)	36,237,385
C. Leasehold Improvements	S/L	lease term	76,289	(21,819)	54,470
D. Software	S/L	2-5 Or 10	638,285	(443,817)	194,468
E. General Equipment	S/L	Various	339,124,951	(257,571,653)	81,553,298
F. Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in- Progress	N/A	N/A	3,840,579	N/A	3,840,579
H. Other			0	0	0
I. Total General PP&E			<u>\$ 425,211,161</u>	<u>\$ (302,889,934)</u>	<u>\$ 122,321,227</u>

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

As of September 30	2015				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A.Land	N/A	N/A	\$ 445,832	N/A	\$ 445,832
B.Buildings, Structures, and Facilities	S/L	20 Or 40	79,348,421	\$ (43,153,662)	36,194,759
C. Leasehold Improvements	S/L	Lease Term	66,177	(18,755)	47,422
D. Software	S/L	2-5 or 10	627,530	(434,429)	193,101
E.General Equipment	S/L	Various	335,089,604	(254,154,055)	80,935,549
F. Assets Under Capital Lease	S/L	Lease Term	0	0	0
G. Construction-in-Progress	N/A	N/A	4,399,700	N/A	4,399,700
H. Other			0	0	0
I. Total General PP&E			\$ 419,977,264	\$ (297,760,901)	\$ 122,216,363

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Heritage Assets and Stewardship Land

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	6,117	101	1,095	5,123
Archeological Sites	Each	1,974	21	160	1,835
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,278	809	472	135,615
Museum Collection Items (Objects, Fine Art)	Each	15,258	35	206	15,087

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	1,565	0	4	1,561
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,267	4	0	6,271
9130	Licensed and Permitted Land	735	0	0	735
9140	Public Land	0	0	0	0
9210	Land Easement	160	0	0	160
9220	In-leased Land	103	0	0	103
9230	Foreign Land	296	0	0	296
Grand Total					9,126
TOTAL - All Other Lands					2,855
TOTAL – Stewardship Lands					6,271

Relevant Information for Comprehension**General Property, Plant and Equipment (PP&E)**

There are restrictions on the Air Force's ability to dispose of real property (land and buildings) located outside the continental United States.

Due to lack of historical data, in the past the Air Force estimated historical values for capitalized general equipment using current departmental internal records. Currently, the Air Force uses actual acquisition cost for capitalizing general equipment. The Air Force estimates historical values for capitalized general equipment using departmental internal records.

Other Air Force Disclosures

The value of the Air Force's General PP&E real property in the possession of contractors is included in the values reported for the major asset classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property major asset class of Software and Equipment does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The Air Force does not report the value of equipment purchased directly by the contractor. The Inspector General, DoD, and the Air Force are developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes in compliance with generally accepted accounting principles.

Heritage Assets and Stewardship Land

The Air Force's overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to fly, fight, and win in air, space, and cyberspace. As this mission has been executed, Air Force has become a large-scale owner of historic buildings, structures, archeological sites and artifacts, aircraft, other cultural resources, and stewardship land. The protection of the nation's heritage assets and stewardship land is an important aspect of the Air Force's mission.

Heritage Assets are PP&E of historical, natural, cultural, educational or artistic significance (e.g. aesthetic); or with significant architectural characteristics. Heritage Assets and Stewardship Land are resources that protect, restore, enhance, modernize, preserve and sustain mission capability within the Air Force through effective planning and management of natural and cultural resources to guarantee access to air, land, and water. These assets are resources that are managed to provide multiple-use activities for the public benefit. This includes actions to comply with requirements such as federal laws, Executive Orders, policies, final governing standards, and other binding agreements. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of these assets.

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

The Air Force has 9.1 million acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These facilities are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reported 6,117 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2015. The number of buildings/structures considered Heritage Assets in FY16 is 5,123, a total reduction of 994. The total reflects 101 facilities added to the Real Property Inventory, offset by demolition of 1,095 Buildings/Structures.

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

Archaeological Sites

Prehistoric and historic archaeological sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reported 1,974 archeological sites were Heritage Assets as of Sep 2014. The AF has not yet collected FY16 data on the number of archaeological Heritage Assets, and so herein reports the FY15 number, 1,835. This cohort of archaeological Heritage Assets is a subset of over 21,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories. The AF collects previous FY archaeological Heritage Asset data in the annual Defense Environmental Program Annual Report to Congress (DEPARC) in December of the following FY.

Museum Collection Items

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

During the period 1 October 2015 – 30 September 2016 there have been 809 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 472 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2016 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well as extensive conservation work on the museum's "Presidential" aircraft, Global Reach aircraft, and the Apollo 15 spacecraft culminating in their placement in the NMUSAF's newly constructed 4th building which opened to the public in June 2016.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1072 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

The art collection contains original oils, drawing, sketches and sculptures. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. This represents 33 additions into the Air Force Art Program. The Art Program did not include any additions or deletions from the National Museum of the United States Air Force holdings.

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

Assets Under Capital Lease

As of September 30	2016	2015
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	0	0
C. Accumulated Amortization	(0)	(0)
D. Total Capital Leases	<u>\$ 0</u>	<u>\$ 0</u>

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2016	2015
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	255,175	327,991
D. Total Intragovernmental Liabilities	<u>\$ 255,175</u>	<u>\$ 327,991</u>
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 20,396	\$ 77,517
B. Military Retirement and Other Federal Employment Benefits	1,038,416	1,079,798
C. Environmental and Disposal Liabilities	9,452,138	7,341,616
D. Other Liabilities	2,746,612	2,899,540
E. Total Nonfederal Liabilities	<u>\$ 13,257,562</u>	<u>\$ 11,398,471</u>
3. Total Liabilities Not Covered by Budgetary Resources	<u>\$ 13,512,737</u>	<u>\$ 11,726,462</u>
4. Total Liabilities Covered by Budgetary Resources	<u>\$ 12,468,447</u>	<u>\$ 11,937,981</u>
5. Total Liabilities	<u>\$ 25,981,184</u>	<u>\$ 23,664,443</u>

Relevant Information for Comprehension

The material amounts and sensitive areas included in Total Liabilities Not Covered by Budgetary Resources are categorized as not covered because there is no current or immediate appropriation available for liquidation. These liabilities will require resources funded from future year appropriations. The Air Force fully expects to receive the necessary resources to cover these liabilities in future years.

Other Intragovernmental Liabilities are primarily comprised of Federal Employees' Compensation Act (FECA) liabilities to the Department of Labor and other unfunded employment related liabilities.

Other Nonfederal Liabilities are primarily comprised of the amounts recorded for unpaid leave earned to which an employee is entitled upon separation and for contingent liabilities which are probable and measurable and will require resources funded from future years' appropriations.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work related deaths, disability, or occupational disease. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of September 30	2016		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,021,975	\$ N/A	\$ 2,021,975
2. Nonfederal Payables (to the Public)	3,681,195	0	3,681,195
3. Total	\$ 5,703,170	\$ 0	\$ 5,703,170

As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,012,406	\$ N/A	\$ 2,012,406
2. Nonfederal Payables (to the Public)	3,513,528	0	3,513,528
3. Total	\$ 5,525,934	\$ 0	\$ 5,525,934

Relevant Information for Comprehension

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by Air Force. The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with intra-agency seller-side accounts receivable.

Note 13.	Debt
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Not applicable

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of September 30

2016

2015

(Amounts in thousands)

1. Environmental Liabilities--Nonfederal

A. Accrued Environmental Restoration Liabilities

1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 6,595,349	\$ 4,830,381
2. Active Installations—Military Munitions Response Program (MMRP)	544,806	484,269
3. Formerly Used Defense Sites—IRP and BD/DR	0	0
4. Formerly Used Defense Sites--MMRP	0	0

B. Other Accrued Environmental Liabilities—Non-BRAC

1. Environmental Corrective Action	14,722	14,722
2. Environmental Closure Requirements	1,253,417	1,253,417
3. Environmental Response at Operational Ranges	0	0
4. Asbestos	467,582	467,582
5. Non-Military Equipment	0	34,175
6. Other	0	0

C. Base Realignment and Closure Installations

1. Installation Restoration Program	1,526,175	1,255,314
2. Military Munitions Response Program	2,662	2,249
3. Environmental Corrective Action / Closure Requirements	685	149
4. Asbestos	80	3,637
5. Non-Military Equipment	0	0
6. Other	0	0

D. Environmental Disposal for Military Equipment / Weapons Programs

1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0	0
2. Non-Nuclear Powered Military Equipment	0	36,402
3. Other Weapons Systems	0	0

E. Chemical Weapons Disposal Program

1. Chemical Demilitarization - Chemical Materials Agency (CMA)	0	0
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	0	0
3. Other	0	0

2. Total Environmental Liabilities

\$ 10,405,478	\$ 8,382,297
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Relevant Information for Comprehension

An environmental liability is a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

Applicable Laws and Regulations of Cleanup, Closure, and/or Disposal Requirements.

The Air Force is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public human health or environmental risk. The Air Force does this in coordination with regulatory agencies and, if applicable, with other responsible parties. The Air Force is also required to recognize closure, post closure and disposal costs for its Property, Plant and Equipment (PP&E) and environmental corrective action costs for current operations. The Air Force is responsible for tracking and reporting all required environmental information related to environmental restoration and corrective action, closure and disposal costs of PP&E, and environmental costs related to BRAC actions that have taken place in prior years. Applicable laws and regulations for cleanup requirements include the following:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act (SARA)
- Clean Water Act
- Safe Drinking Water Act
- Clean Air Act
- Resource Conservation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Atomic Energy Act
- Nuclear Waste Policy Act
- Low Level Radioactive Waste Policy Amendments Act

Method for Assigning Estimated Total Cleanup, Closure, and/or Disposal Costs to Current Operating Periods

The Air Force uses independently validated models and engineering estimates to estimate environmental and disposal liabilities. The models are either contained within the Remedial Action Cost Engineering Requirements (RACER) application or models are developed to leverage costs from industry-standard cost factors or comparable historical projects, bids, and expenditures. The Air Force validates the models in accordance with DoD Instruction 5000.61 and uses the models to estimate asset-driven and event-driven liabilities.

Once the environmental cleanup cost estimates are complete, the Air Force complies with accounting standards to assign costs to current operating periods. For asset-driven liabilities (with the exception of asbestos cleanup costs), the Air Force recognizes the full liability for cleanup costs associated with General PP&E placed into service prior to October 1, 1997. For asbestos cleanup costs, the Air Force recognizes the full liability for cleanup costs associated with General PP&E placed into service prior to October 1, 2012. For assets placed into service on or after these dates, the Air Force records a liability and recognizes a corresponding expense for estimated cleanup costs equal to the portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. In each subsequent year of the asset's useful life the Air Force recognizes a proportionate amount of the remaining costs until the full liability is accrued. For event-driven liabilities, expenses are recognized and the associated liabilities are reduced in the operating periods in which work was performed at environmental sites.

Types of Environmental and Disposal Liabilities Identified

Air Force environmental liabilities are driven by events or existing assets. Event-driven liabilities are the estimated costs to investigate, remediate, and monitor existing environmental contaminations. These liabilities include accrued environmental restoration liabilities funded by the Defense Environmental Restorations Program (DERP), corrective action not funded by DERP, and environmental response at operational ranges. Asset driven liabilities are the estimated costs to safely decommission or dispose of assets that contain hazardous waste when the assets are temporarily or permanently closed. The assets that drive these liabilities include facilities and equipment that require unique environmental activities at temporary or permanent closure, real property that contains asbestos, and weapons systems.

The Air Force reports a \$0 balance for line items where another DoD Entity serves as the DoD Executive Agent. Executive agents are responsible for identifying funding requirements and disclosing financial information regarding the progress of these programs. The United States Army Corps of Engineers is the Executive agent for Formerly Used Defense Sites. The Department of the Navy is the Executive Agent for environmental liabilities due to Nuclear Powered Military Equipment and Spent Nuclear Fuel, and the Department of the Army is the Executive Agent for environmental liabilities related to the chemical weapons program.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

Office of the Secretary of Defense (OSD) Policy Memorandum: Strategy for Environmental & Disposal Liabilities Audit Readiness

The policy memorandum, issued 30 September 2015, establishes updates that will be made to DoD Financial Management Regulation (FMR) Volume 4, Chapter 13 Environmental Liabilities which impacts the methodologies prescribed for identifying, recording, and reporting DoD Environmental and Disposal Liabilities.

Office of the Secretary of Defense (OSD) Policy Memorandum: Cost Estimating and Reporting Procedures – Update to DoD Manual (DoDM) 4715.20 “Defense Environmental Restoration Program (DERP), March 9, 2012”

The policy memorandum, issued 24 September 2014, establishes updates with the intent of ensuring DoD Components develop consistent cost estimates, improve the accuracy of DoD’s cost estimates, and improve data reporting which impacts the cost estimates recorded and reported on Air Force financial statements.

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

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

For environmental liabilities at BRAC installations, there is a level of uncertainty surrounding the estimates currently reported for the former Galena Forward Operating Location, due to the recent discovery of additional contamination and regulatory changes in the state of Alaska. There is also uncertainty regarding an emerging contaminant, perfluorinated compounds (PFCs), due to the lack of promulgated cleanup standards and limited information. The Air Force is currently in the preliminary assessment stage at 29 BRAC installations.

Unrecognized Costs

The Air Force does not currently have unrecognized costs related to the future cleanup, closure, or disposal of general PP&E.

Other Disclosures

The total Air Force Active Installation restoration environmental liabilities (Section A, Line 1) increased by a total of 34.5% (IRP = 36.7% and MMRP = 12.5%) from 2015 to 2016, due to fully implementing the OSD Cost-to-Complete (CTC) Update Procedure – Update to the Department of Defense Manual (DoDM) 4715.20, “Defense Environmental Restoration Program (DERP) Management,” March 9, 2012, (including Chapters 13 and 14), signed by Mr. Conger on 11 July 2014. This procedure update provided guidance on estimating definite RA-O and LTM durations based on a modeling tool, closure/post-closure plan, regulatory document, or professional judgment, rather default to a rolling 30-year basis. Another major contributor was a 23% increase in management cost to complete by implementing the OSD Memo - Strategy for Environmental & Disposal Liabilities Audit Readiness, 30 Sep 2015 requiring program management costs be estimated until last site closure. The outyears cost estimates extended from 30 to 296 years. Lastly, \$550M in PFC requirements were identified FY16-23. Previous cycle only estimated through the study phase.

The total Air Force BRAC environmental liabilities (Section C) increased by 21% from 2015 to 2016, mainly due to the response actions required to address the emerging contaminant, perfluorinated compounds (PFCs), that currently affect 29 BRAC installations. These 29 installations are currently in the preliminary assessment or site inspection phase and it is anticipated that 25 of those installations will progress to the remedial investigation/feasibility study (RI/FS) and/or mitigation phase.

The AF BRAC Installation Restoration Program line (Section C, line 1) increased by 22% from 2015. The majority of this increase is due to the anticipated response actions to address PFCs. The AF BRAC emerging contaminant project is currently underway and is identifying the potential release of perfluorinated compounds (emerging contaminants) at suspected crash/spill non-site associated areas at 29 installations. There are 25 installations expected to complete this site inspection phase that will require follow-on investigation (RI/FS), and 15 of those installations are expected to require mitigation. Mitigation is expected due to the following factors: state promulgated cleanup requirements in Texas, Michigan, and New Hampshire; response specifically at the former Pease AFB due to the USEPA Administrative Order; and the construction and/or mitigation to mitigate risk to human health regarding safe drinking water if levels are found over the USEPA Health Advisory. These 15 BRAC installations include the following: Bergstrom, Castle, Chanute, Griffiss, Grissom, K.I. Sawyer, Kelly, Loring, March, Mather, Myrtle Beach, Pease, Plattsburgh, Reese, and Wurtsmith.

The AF BRAC Military Munitions Response Program line (Section C, line 2) increased by 18% from 2015. This increase is due to a follow-on action at the former Williams AFB to characterize a site not previously investigated due to the presence of concrete/asphaltic rubble over the area.

The AF BRAC Environmental Corrective Action / Closure Requirements line (Section C, line 3) increased 361% from 2015, due to requirements at the former George AFB to remove a previously unknown oil water separator and underground storage tank, with no anticipated follow-on work required.

The AF BRAC Asbestos line (Section C, line 4) decreased by 98% from 2015, as the following projects continued to be liquidated during 2016: discovery of asbestos requiring abatement at former Chanute AFB and former Brooks City Base.

Emerging Contaminants

In FY 2015, the DERP program identified Perfluorinated chemicals (PFCs) as a contaminant requiring active remediation due to the threat of adversely affecting human health and the environment. PFCs are found in soil, air, and groundwater across the United States and are resistant to typical environmental

degradation processes. At the end of fiscal year 2015, the Restoration program initiated efforts to analyze the existence of PFCs. Currently, the DERP program is identifying the potential release of perfluorinated compounds (emerging contaminants) at suspected Air Force sites.

The results of the analysis will provide a basis for estimating increases to future liability estimates over the next several years as investigation results are obtained and more detail is known around the remedies required across the Air Force.

Programmatic Changes

Due to programmatic changes being implemented within the OEL program, updates to the estimated liabilities associated with OEL sub-line items are expected in FY 2017. Until full implementation of these programmatic changes, prior year balances continue to be reported in the current year without adjustment to align them with the current actual OEL liabilities.

Note 15.	Other Liabilities
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As of September 30

(Amounts in thousands)

	2016		
	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	\$ 798,741	\$ 0	\$ 798,741
B. Deposit Funds and Suspense Account Liabilities	(306,094)	0	(306,094)
C. Disbursing Officer Cash	60,958	0	60,958
D. Judgment Fund Liabilities	20,011	0	20,011
E. FECA Reimbursement to the Department of Labor	98,406	117,281	215,687
F. Custodial Liabilities	0	1,050	1,050
G. Employer Contribution and Payroll Taxes Payable	82,105	0	82,105
H. Other Liabilities	19,478	0	19,478
I. Total Intragovernmental Other Liabilities	<u>\$ 773,605</u>	<u>\$ 118,331</u>	<u>\$ 891,936</u>
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 1,243,016	\$ 0	\$ 1,243,016
B. Advances from Others	153,438	0	153,438
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	457,347	0	457,347
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,504,444	0	2,504,444
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	176,312	0	176,312
J. Employer Contribution and Payroll Taxes Payable	253,253	0	253,253
K. Contingent Liabilities	0	3,149,267	3,149,267
L. Other Liabilities	0	0	0
M. Total Nonfederal Other Liabilities	<u>\$ 4,787,810</u>	<u>\$ 3,149,267</u>	<u>\$ 7,937,077</u>
3. Total Other Liabilities	<u>\$ 5,561,415</u>	<u>\$ 3,267,598</u>	<u>\$ 8,829,013</u>

As of September 30	2015		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	\$ 720,234	\$ 0	\$ 720,234
B. Deposit Funds and Suspense Account Liabilities	(2,492)	0	(2,492)
C. Disbursing Officer Cash	68,239	0	68,239
D. Judgment Fund Liabilities	76,006	0	76,006
E. FECA Reimbursement to the Department of Labor	100,160	123,995	224,155
F. Custodial Liabilities	0	7,571	7,571
G. Employer Contribution and Payroll Taxes Payable	62,328	0	62,328
H. Other Liabilities	27,918	0	27,918
I. Total Intragovernmental Other Liabilities	<u>\$ 1,052,393</u>	<u>\$ 131,566</u>	<u>\$ 1,183,959</u>
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 1,762,565	\$ 0	\$ 1,762,565
B. Advances from Others	122,733	0	122,733
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	86,091	0	86,091
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,513,396	0	2,513,396
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	205,512	0	205,512
J. Employer Contribution and Payroll Taxes Payable	205,273	0	205,273
K. Contingent Liabilities	0	2,592,816	2,592,816
L. Other Liabilities	(13)	0	(13)
M. Total Nonfederal Other Liabilities	<u>\$ 4,895,557</u>	<u>\$ 2,592,816</u>	<u>\$ 7,488,373</u>
3. Total Other Liabilities	<u>\$ 5,947,950</u>	<u>\$ 2,724,382</u>	<u>\$ 8,672,332</u>

Capital Lease Liability

The General Fund has no Capital Lease Liability

Relevant Information for Comprehension

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Non-Federal Other Liabilities primarily consist of accruals for services, accrued liabilities for inventory owned and managed on behalf of foreign governments, and undistributed international tariff receipts. Nonfederal Other Liabilities reflect accrued moving allowance and miscellaneous expenses to contractors.

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Deposit funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, etc.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where Air Force is acting on behalf of another Federal entity.

Contingent Liabilities includes \$3.1 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Air Force has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency.

The abnormal balance in Intragovernmental Deposit Funds and Suspense Account Liabilities of \$306.1 million is due to a change in reporting. Beginning in 4th Quarter, FY 2016, the Air Force has begun moving various withholdings from clearing suspense accounts to deposit fund accounts. While the transition is in process, intransit collections are being reported in the deposit funds which are mapped to a different line on Note 15- Nonfederal Deposit Funds and Suspense Accounts. The offsetting intransits are residing in the suspense accounts, which are mapped to Intragovernmental Deposit Funds and Suspense Account Liabilities. This change in process is creating an abnormal balance as they are mapped to different lines on Note 15.

The abnormal balance in Nonfederal Other Liabilities in FY 2015 of \$13.0 thousand in the Operations and Maintenance appropriation is due to transfer allowances related to civilian payroll that occurred during 2Q FY 2015.

Note 16. Commitments and Contingencies

The Air Force is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

The Air Force has accrued contingent liabilities for legal actions where the Secretary of the Air Force General Counsel (SAF/GC) considers an adverse decision probable and the amount of loss measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Air Force records contingent liabilities in Note 15, Other Liabilities.

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$135.7 million. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administered by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

The amounts disclosed for litigation claims and assessments are fully supportable and must agree with Force's legal representation letters and management summary schedule.

The amount of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment is \$1.2 billion.

The Air Force is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, the Air Force's automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present Air Force commitments and contingencies.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of September 30, 2016, valued at \$242.1 million, included in Nonfederal Contingent Liabilities. As of September 30, 2016, the Air Force was party to 1,538 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select Federal Government personnel disciplinary matters.

The SAF/GC developed the estimating methodology for the contingent liabilities recognized in Note 15.

In cases where SAF/GC disclosed that a judgment has been awarded against the Air Force, these amounts were reported on the Balance Sheet and within Note 15.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of September 30	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
2. Other Benefits			
A. FECA	\$ 1,038,416	\$ 0	\$ 1,038,416
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	5,107	(5,107)	0
E. Total Other Benefits	\$ 1,043,523	\$ (5,107)	\$ 1,038,416
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,043,523	\$ (5,107)	\$ 1,038,416

As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
2. Other Benefits			
A. FECA	\$ 1,079,798	\$ 0	\$ 1,079,798
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	4,082	(4,082)	0
E. Total Other Benefits	\$ 1,083,880	\$ (4,082)	\$ 1,079,798
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 1,083,880	\$ (4,082)	\$ 1,079,798

Relevant Information for Comprehension

Programs for which actuarial benefits are computed include the Federal Employees' Compensation Act (FECA); the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases; and a component for incurred but not reported claims.

FECA liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds.

Interest rate assumptions utilized for discounting were as follows:

Discount Rates

For wage benefits:
2.781% in Year 1 and Years thereafter;
For medical benefits:
2.261% in Year 1 and Years thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors [Cost of Living Adjustment (COLA)] and medical inflation factors [Consumer Price Index Medical (CPIM)] were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2016 were also used to adjust the methodology's historical payments to current-year constant dollars.

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

CBY	COLA	CPIM
2016	N/A	N/A
2017	1.31%	2.99%
2018	1.13%	3.09%
2019	1.23%	3.40%
2020	1.45%	3.68%
2021	1.85%	3.87%
and thereafter		

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in FY 2016 projection to the average pattern for the projections of the most recent three years.

The Air Force's actuarial liability for workers' compensation benefits is developed and provided by Department of Labor at the end of each fiscal year. There is no change on a quarterly basis.

Other Federal Employment Benefits is comprised of additional post-employment benefits due and payable to military personnel.

Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue

As of September 30	2016	2015
(Amounts in thousands)		
Military Retirement Benefits		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
Civil Works		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	\$ 7,516,476	\$ 7,708,810
B. Nonfederal Cost	27,677,982	26,668,864
C. Total Cost	<u>\$ 35,194,458</u>	<u>\$ 34,377,674</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (454,901)	\$ (440,174)
B. Nonfederal Revenue	(26,665)	(30,675)
C. Total Revenue	<u>\$ (481,566)</u>	<u>\$ (470,849)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Cost	<u>\$ 34,712,892</u>	<u>\$ 33,906,825</u>

Operations, Readiness & Support

1. Gross Cost			
A. Intragovernmental Cost	\$	(3,471,816)	\$ (2,570,962)
B. Nonfederal Cost		58,055,812	57,135,425
C. Total Cost	\$	54,583,996	\$ 54,564,463
2. Earned Revenue			
A. Intragovernmental Revenue	\$	161,392	\$ (121,782)
B. Nonfederal Revenue		(269,647)	(209,991)
C. Total Revenue	\$	(108,255)	\$ (331,773)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	54,475,741	\$ 54,232,690

Procurement

1. Gross Cost			
A. Intragovernmental Cost	\$	19,674,371	\$ 18,225,378
B. Nonfederal Cost		30,229,031	28,589,362
C. Total Cost	\$	49,903,402	\$ 46,814,740
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(427,904)	\$ (422,935)
B. Nonfederal Revenue		(884,081)	(890,722)
C. Total Revenue	\$	(1,311,985)	\$ (1,313,657)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	48,591,417	\$ 45,501,083

Research, Development, Test & Evaluation

1. Gross Cost			
A. Intragovernmental Cost	\$	10,214,672	\$ 10,351,339
B. Nonfederal Cost		15,367,381	14,571,608
C. Total Cost	\$	25,582,053	\$ 24,922,947
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(2,895,100)	\$ (3,038,454)
B. Nonfederal Revenue		(36,563)	(54,681)
C. Total Revenue	\$	(2,931,663)	\$ (3,093,135)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	22,650,390	\$ 21,829,812

Family Housing & Military Construction

1. Gross Cost			
A. Intragovernmental Cost	\$	55,672	\$ 46,099
B. Nonfederal Cost		1,909,306	1,300,284
C. Total Cost	\$	1,964,978	\$ 1,346,383
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(750)	\$ (3)
B. Nonfederal Revenue		(6,777)	0
C. Total Revenue	\$	(7,527)	\$ (3)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	1,957,451	\$ 1,346,380

Consolidated

1. Gross Cost			
A. Intragovernmental Cost	\$	33,989,375	\$ 33,760,664
B. Nonfederal Cost		133,239,512	128,265,543
C. Total Cost	\$	167,228,887	\$ 162,026,207
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(3,617,263)	\$ (4,023,348)
B. Nonfederal Revenue		(1,223,733)	(1,186,069)
C. Total Revenue	\$	(4,840,996)	\$ (5,209,417)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
4. Costs Not Assigned to Programs	\$	0	\$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	\$	0	\$ 0
Total Net Cost	\$	162,387,891	\$ 156,816,790

Relevant Information for Comprehension

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

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

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

The Air Force's systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartment revenues and expenses are then eliminated.

The Air Force does not meet accounting standards. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The Air Force's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

In 2016, Operations, Readiness & Support reported an abnormal balance for Intragovernmental Cost in the amount of \$3.5 billion and Intragovernmental Revenue for \$161.4 million. \$2.6 billion in abnormal intragovernmental costs was also reported in FY 2015. Both abnormals are due to the eliminations process. Due to system and process limitation, the current business practice is to report most elimination in this program group resulting in the abnormal balance presentation.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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Other Financing Sources, Other is comprised of unsupported adjustments to reconcile reported intragovernmental transfers, the majority of which are recorded at the Air Force Component level, as the respective federal partners could not be identified nor the transfers reconciled.

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$2.6 billion.

Period Ended September 30, 2016 (\$ in thousands)		
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		
	Total	
Appropriations, Statement of Budgetary Resources	\$	162,421,175.8
Appropriations Received, Statement of Changes in Net Position	\$	164,994,144.0
Total Reconciling Amount	\$	2,572,968.2
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent Reductions	\$	3,341,069.7
Items Reported as Additions to Appropriations, Statement of Budgetary Resources		
Transfers	\$	(756,672.9)
Items Not Reported as Appropriations Received on the Statement of Changes in Net Position		
Dedicated appropriations and earmarked receipts	\$	(11,428.6)
Total Reconciling Items	\$	2,572,968.2

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of September 30 (Amounts in thousands)	2016	2015
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 94,706,209	\$ 83,910,292
2. Available Borrowing and Contract Authority at the End of the Period	0	0

Relevant Information for Comprehension

Apportionment Categories

Funds are apportioned by three categories: (1) Category A is apportioned quarterly, (2) Category B is apportioned by activity or project, and (3) Exempt is funds not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the table.

	Category A	Category B	Exempt
Direct	\$93.2 billion	\$70.5 billion	\$9.0 million
Reimbursable	\$5.3 billion	\$3.7 billion	\$ 0 million

Intra-entity Transactions

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

Permanent Indefinite Appropriations

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

- Department of the Air Force General Gift Fund [10 USC 2601(b)]
- Wildlife Conservation Fund [16 USC 670(a)]
- Air Force Cadet Fund [37 USC 725(s)]
- Medicare-Eligible Retiree Health Fund Contribution, Air Force (10 USC 1116)
- Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (10 USC 1116)
- Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (10 USC 1116)

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

Appropriations Received

Appropriations on the SBR differ from those reported on the Statement of Changes in Net Position (SCNP). Refer to Note 19, Disclosures Related to the Statement of Changes in Net Position for additional details.

The \$174.1 million on the Distributed Offsetting Receipts line is related to the amount of receipts collected for the receipt accounts is less than the fund balance with treasury account in the Air Force suspense accounts.

The \$37.1 billion abnormal in allotments-realized resources is due to the implementation of the direct interface of the Air Force's funding system to General Accounting and Finance System-Reengineered (GAFS-R). The interface includes recording accounting entries for internal funds distribution which is creating the abnormal balance in allotments-realized resources with the offsetting balance in apportionments. Research is underway to identify corrective action for resolution in FY 2017.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of September 30

2016

2015

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$ 172,781,434	\$ 159,986,111
2. Less: Spending authority from offsetting collections and recoveries (-)	(14,151,032)	(14,981,201)
3. Obligations net of offsetting collections and recoveries	\$ 158,630,402	\$ 145,004,910
4. Less: Offsetting receipts (-)	174,080	(5,987)
5. Net obligations	\$ 158,804,482	\$ 144,998,923

Other Resources:

6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(230,597)	(3,094,771)
8. Imputed financing from costs absorbed by others	680,182	645,519
9. Other (+/-)	(1,184,145)	2,293,123
10. Net other resources used to finance activities	\$ (734,560)	\$ (156,129)
11. Total resources used to finance activities	\$ 158,069,922	\$ 144,842,794

Resources Used to Finance Items not Part of the Net Cost of Operations:

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	\$ (10,795,916)	\$ 2,633,333
12b. Unfilled Customer Orders	443,677	11,382
13. Resources that fund expenses recognized in prior periods (-)	(134,183)	(216,283)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	(350,721)	(257,098)
15. Resources that finance the acquisition of assets (-)	(11,238,125)	(6,894,252)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	1,443,456	990,749
17. Total resources used to finance items not part of the Net Cost of Operations	\$ (20,631,812)	\$ (3,732,169)
18. Total resources used to finance the Net Cost of Operations	\$ 137,438,110	\$ 141,110,625

As of September 30

2016

2015

(Amounts in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	9,182	\$	26,500
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		3,981		632
23. Other (+/-)		1,823,934		387,234
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	1,837,097	\$	414,366

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	10,692,570	\$	12,993,749
26. Revaluation of assets or liabilities (+/-)		2,894,784		578,810
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		49,674,858		37,366,892
27d. Other		(40,149,528)		(35,647,652)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	23,112,684	\$	15,291,799

29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	24,949,781	\$	15,706,165
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30. Net Cost of Operations	\$	162,387,891	\$	156,816,790
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Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost is (\$13.7) million in the Other Components Not Requiring or Generating Resources category.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intraagency budgetary transactions are not eliminated:

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

Other Resources Used to Finance Activities consists of other gains to adjust intragovernmental transfers in.

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

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period consist of expenses due to Air Force Active Operations and Maintenance and Military Personnel.

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

Offsetting Receipts and Budgetary Offsetting Collections and Receipts that do not affect Net Cost of Operations are abnormal in the amount of \$174.1 million and \$350.7 million respectively. This is contributed to the Deposit Account for Other Federal Payroll Withholding Allotments. Beginning in 4th Quarter, FY 2016, the Air Force has begun moving various withholdings from clearing suspense accounts to deposit fund accounts. While this transition is in process, intransit collections are being reported in the deposit funds. The offsetting intransits are residing in the suspense accounts. This change in processes is creating an abnormal balance as suspense accounts are not mapped to these lines on Footnote 21.

Note 22. Disclosures Related to Incidental Custodial Collections

The Air Force collected \$128.8 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. These funds are not available for use by Air Force. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

Note 23.	Funds from Dedicated Collections
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BALANCE SHEET As of September 30	2016				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
<u>ASSETS</u>					
Fund balance with Treasury	\$ 0	\$ 0	\$ 16,849	\$ 0	\$ 16,849
Investments	0	0	899	0	899
Accounts and Interest Receivable	0	0	(252)	0	(252)
Other Assets	0	0	1,341	0	1,341
Total Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,837</u>	<u>\$ 0</u>	<u>\$ 18,837</u>
<u>LIABILITIES and NET POSITION</u>					
Accounts Payable and Other Liabilities	0	0	(353)	58	(295)
Total Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (353)</u>	<u>\$ 58</u>	<u>\$ (295)</u>
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	19,190	6,758	25,948
Total Liabilities and Net Position	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,837</u>	<u>\$ 6,816</u>	<u>\$ 25,653</u>
<u>STATEMENT OF NET COST</u>					
For the period ended September 30					
Program Costs	\$ 0	\$ 0	\$ (2,379)	\$ (6,758)	\$ (9,137)
Less Earned Revenue	0	0	0	0	0
Net Program Costs	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,379)</u>	<u>\$ (6,758)</u>	<u>\$ (9,137)</u>
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,379)</u>	<u>\$ (6,758)</u>	<u>\$ (9,137)</u>

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2016				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 22,910	\$ 0	22,910
Net Cost of Operations	0	0	(2,379)	(6,758)	(9,137)
Budgetary Financing Sources	0	0	11,460	0	11,460
Other Financing Sources	0	0	(17,559)	0	(17,559)
Change in Net Position	\$ 0	\$ 0	\$ (3,720)	\$ 6,758	3,038
Net Position End of Period	\$ 0	\$ 0	\$ 19,190	\$ 6,758	25,948

BALANCE SHEET As of September 30	2015				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	\$ 0	\$ 0	\$ 20,958	\$ 0	\$ 20,958
Investments	0	0	954	0	954
Accounts and Interest Receivable	0	0	(252)	0	(252)
Other Assets	0	0	1,075	0	1,075
Total Assets	\$ 0	\$ 0	\$ 22,735	\$ 0	\$ 22,735
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	0	0	(175)	22	(153)
Total Liabilities	\$ 0	\$ 0	\$ (175)	\$ 22	\$ (153)
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	22,910	29,394	52,304
Total Liabilities and Net Position	\$ 0	\$ 0	\$ 22,735	\$ 29,416	\$ 52,151
STATEMENT OF NET COST For the period ended September 30					
Program Costs	\$ 0	\$ 0	\$ 47,008	\$ (29,394)	\$ 17,614
Less Earned Revenue	0	0	0	0	0
Net Program Costs	\$ 0	\$ 0	\$ 47,008	\$ (29,394)	\$ 17,614
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	\$ 0	\$ 0	\$ 47,008	\$ (29,394)	\$ 17,614

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2015				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 33,162	\$ 0.00	\$ 33,162
Net Cost of Operations	0	0	47,008	(29,394)	17,614
Budgetary Financing Sources	0	0	36,756	0.00	36,756
Other Financing Sources	0	0	0	0	0
Change in Net Position	\$ 0	\$ 0	\$ (10,252)	\$ 29,394	\$ 19,142
Net Position End of Period	\$ 0	\$ 0	\$ 22,910	\$ 29,394	\$ 52,304

Relevant Information for Comprehension

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

The Department of the Air Force General Gift Fund accepts, holds, and administers any gift, device, or bequest of real or personal property, made on the condition that it is used for the benefit (or in connection with the establishment, maintenance, or operation) of a school, hospital, library, museum, or cemetery under the Air Force's jurisdiction. The fund is available to such institutions or organizations subject to the terms of the gift, device, or bequest.

Conditional gifts are invested in U.S. Treasury securities, and any interest earned on these securities is accumulated in the fund.

Wildlife Conservation Fund [16 USC 670 (a)]

The Wildlife Conservation Fund provides for (1) the conservation and rehabilitation of natural resources on military installations, (2) the sustainable multipurpose use of the resources which include hunting, fishing, trapping, and nonconsumptive uses, and (3) the public access to military installations to facilitate its use, subject to safety requirements and military security. The fund is available to carry out these programs and other such expenses that may be necessary for the purpose of the cited statute.

Consisting of both appropriated and nonappropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

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

The Air Force Cadet Fund is maintained for the benefit of Air Force Academy cadets. Disbursements are made for the personal services of cadets such as laundry, arts, and athletics while collections are received from the same cadets at least equal to any disbursements made.

The Air Force General Gift Fund and Wildlife Conservation Fund are trust funds. The Air Force Cadet Fund is classified as a special fund. All three funds utilize receipt and expenditure accounts in accounting for and reporting the funds.

The \$252.3 thousand abnormal balance in Accounts and Interest Receivable and \$354.4 thousand abnormal balance in Accounts Payable and Other Liabilities is due to a field reported transaction in the Air Force Cadet Fund which created undistributed collections and disbursements.

The \$2.4 million abnormal balance in Program Costs is attributed to an increase in construction projects using funds earmarked for the Air Force General Gift Fund. The capitalization of construction in progress caused a higher than normal offset to Gift Fund program costs.

Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

For the period ended September 30	2016		2015	
(Amounts in thousands)				
1. Fiduciary net assets, beginning of year	\$	1,989	\$	1,678
2. Fiduciary revenues		0		0
3. Contributions		7,507		4,368
4. Investment earnings		0		0
5. Gain (Loss) on disposition of investments, net		0		0
6. Administrative and other expenses		0		0
7. Distributions to and on behalf of beneficiaries		(8,003)		(4,057)
8. Increase/(Decrease) in fiduciary net assets	\$	(496)	\$	311
9. Fiduciary net assets, end of period	\$	1,493	\$	1,989

Schedule of Fiduciary Net Assets

For the period ended September 30	2016		2015	
(Amounts in thousands)				
FIDUCIARY ASSETS				
1. Cash and cash equivalents	\$	1,493	\$	1,989
2. Investments		0		0
3. Other Assets		0		0
FIDUCIARY LIABILITIES				
4. Less: LIABILITIES	\$	0	\$	0
5. TOTAL FIDUCIARY NET ASSETS	\$	1,493	\$	1,989

Relevant Information for Comprehension

A fiduciary relationship may exist anytime a Federal Government entity collects or receives, and holds or makes disposition of assets in which a non-federal individual or entity has an ownership interest that the Federal Government must uphold. The relationship is based on statute or other legal authority and the fiduciary activity must be in furtherance of that relationship. The Air Force's fiduciary activities primarily consist of the Savings Deposit Program (SDP). SDP was established to provide members of the uniformed services serving in a designated combat zone the opportunity to build their financial savings.

Note 25.	Other Disclosures
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As of September 30	2016			
	Asset Category			
	Land & Buildings	Equipment	Other	Total

(Amounts in thousands)

**1. ENTITY AS
LESSEE-
Operating
Leases**

Future Payments Due

Fiscal Year				
2016	33,458	0	14,924	48,382
2017	26,299	0	15,074	41,373
2018	14,059	0	15,203	29,262
2019	12,923	0	15,400	29,323
2020	12,155	0	15,402	27,557
After 5 Years	11,428	0	15,701	27,129

Total Future

Lease Payments Due	\$	110,322	\$	0	\$	91,704	\$	202,026
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Relevant Information for Comprehension

Leases in the Land and Buildings category include costs for the operating leased facilities for the active Air Force in the United States and overseas. Land and Buildings consist mostly of housing facilities as well as other mission critical assets.

Leases in the Other category are made up of commercial vehicle leases. Commercial leases are leases made by the Air Force with the general public. These would include leases with dealerships, rental car companies, or any such entity that provides car leasing services.

Note 26.	Restatements
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Not applicable for 2016.

General Fund

Fiscal Year 2016

Required Supplementary
Stewardship Information

STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by DoD for the benefit of the nation, but are not physical assets owned by DoD. Stewardship investments include expenses incurred for federally financed, but not federally owned, physical property (Nonfederal Physical Property) and federally financed research and development (Research and Development).

NONFEDERAL PHYSICAL PROPERTY

Nonfederal Physical Property investments are expenses included in calculating net cost incurred by the reporting entity for the purchase, construction or major renovation of physical property owned by state and local governments. The expenses include the costs identified for major additions, alterations and replacements, purchases of major equipment, and purchases or improvements of other nonfederal assets. In addition, Nonfederal Physical Property Investments include federally owned physical property transferred to state and local governments.

NONFEDERAL PHYSICAL PROPERTY					
Yearly Investment in State and Local Governments					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	\$ 17.2	\$ 13.9	\$ 12.7	\$ 12.3	\$ 7.6
Totals	\$ 17.2	\$ 13.9	\$ 12.7	\$ 12.3	\$ 7.6

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

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal GAAP requirements.

RESEARCH AND DEVELOPMENT

Research and Development investments are incurred in the search for new or refined knowledge and ideas, for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

INVESTMENTS IN RESEARCH AND DEVELOPMENT					
Yearly Investment in Research and Development					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
1. Basic Research	\$ 510	\$ 539	\$ 503	\$ 460	\$ 490
2. Applied Research	1,241	1,089	1,127	998	1,235
3. Development:					
Advanced Technology Development	675	614	632	569	673
Advanced Component Development and Prototypes	1,555	939	948	1,097	1,551
System Development and Demonstration	3,791	3,274	4,375	4,368	3,604
Research, Development, Test and Evaluation					
Management Support	1,512	1,497	1,408	1,418	1,670
Operational Systems Development	15,915	14,880	14,742	14,242	17,016
Totals	\$ 25,199	\$ 22,832	\$ 23,735	\$ 23,152	\$ 26,239

RESEARCH AND DEVELOPMENT

Research and Development investments are incurred in the search for new or refined knowledge and ideas, for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicality of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system, to include non-system specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of the following five stages:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed towards proof of technological visibility and assessment of operational and productivity rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapon systems finalized for complete operational and developmental testing.
4. Research, Development, Test and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.
5. Operational System Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are representative program examples for each of the above major categories:

Basic Research:

The Air Force Research Laboratory (AFRL) achieved macroscopic entanglement in electronics-grade solid-state material at room temperature. This breakthrough is key to the development of practical quantum computers that can function in non-laboratory conditions.

AFRL has synthesized the world's highest quality AlNiZn Ferrite, with an unprecedented combination of both high magnetostriction and low-loss for RF signal transmission. This combination of properties is a key advance toward the development of next generation frequency agile RF systems.

AFRL researchers have directly imaged molecular biomarkers in-operando, while binding to a working field-effect transistor based biosensor. Utilizing state of the art high resolution electron microscopes and advanced image and signal processing techniques, the scientists solved a major challenge in materials characterization- imaging biomolecules in liquid with molecular resolution. This world's first achievement helps scientists understand the complexities at the

interface between biomolecules and non-biological devices, and will allow for improvements in the engineering of current and future sensor platforms.

Applied Research:

AFRL recently successfully detonated the first 3D printed energetic materials. 3D printed energetics may allow for controlled variations in energetic densities to achieve novel effects. By making an energetic material more or less dense in certain areas, weapons will become more capable and may someday be tailored to warfighter needs.

AFRL transitioned the Signal intelligence Tactical Analysis Reporting Gateway (STARGate) version 2.0 to the 25th Air Force 55th Wing Intelligence Support Squadron (ISS) for operational use. The platform and data agnostic STARGate capability provides the 55th Wing with a web enabled mission metadata catalog and analytic framework for analysis of RIVET JOINT mission data. The automated near real-time and post-mission analytics are integrated into STARGate and provide the operator and analysts with a convenient environment to quickly discover actionable, reportable intelligence from high volumes of data. This capability is being transitioned to AFLCMC (BIG SAFARI) for sustainment as part of the operational STARGate core functionality.

Advanced Technology Development:

AFRL has developed a new and accurate way of detecting fuel leaks via Radio Frequency Identification Tags (RFID) technology. By modifying inexpensive RFID tags to only read in the presence of fuel, AFRL has devised an effective way to determine the location of fuel leaks without the need for the current expensive and time consuming defuel, purge and pressure check procedures. This technology can be used in both integral tanks and fuel cell bladders, but has been targeted to help the KC-135 reduce Non-Mission Capable (NMC) rates from fuel cell bladder leakage. AFRL technology can be utilized in both a passive system that would only require RFID installation and the use of a hand held reader or in an active system with on-board monitoring that would require an aircraft mod.

AFRL successful completed final demonstration of the Handheld Imaging Tool (HIT), providing a portable nondestructive solution for Airmen in the field to rapidly assess functionality of stealth-enabling surface materials with a handheld unit/backpack imaging system that weighs less than 18 lbs., compared to the 1,200 lb. repair verification radar (RVR) currently used in depots. The tool, developed through an AFRL Advanced Technology Demonstration program, collects the same amount and quality of data in 15 minutes that the RVR collects in three hours. HIT is expected to deliver \$188.4M in life-cycle cost avoidance and has been transitioned to the SPO.

AFRL demonstrated a full frame, small detector pitch, fast-framing Short Wave Infrared (SWIR) imaging capability. The flight demonstration, conducted in late April and early May 2016, showed that the U-2 SYERS-2C daytime National Image Interpretability Rating Scale (NIIRS) 5 range could be extended by up to 40%, especially in low visibility and hazy conditions.

Advanced Component Development and Prototypes (ACD&P):

B-2 AEHF Strategic Communications

B-2 AEHF Strategic Communications provides secure, strategic, two-way, survivable Anti-Access/Area Denial communications capability for conventional and nuclear B-2 missions. This pre-MDAP program conducted acquisition planning, technology maturation, affordability

assessments, and other pre-Engineering and Manufacturing Development (Pre-EMD) activities associated with satisfying B-2 communications requirements using extremely high frequency and other waveforms. The program plans to award a Technology Maturation and Risk Reduction TMRR contract in 3QFY17 after Milestone A approval.

Long Range Stand Off (LRSO) Weapon

The LRSO effort will develop a new nuclear cruise missile to maintain the capabilities of the Air Launched Cruise Missile. The LRSO weapon system will be capable of penetrating and surviving advanced integrated air defense systems from significant standoff range to prosecute strategic targets in support of the Air Force's global attack capability and strategic deterrence core function.

- On 29 Jul16, USD (AT&L) signed the LRSO Milestone A Acquisition Decision Memorandum (ADM) granting the LRSO program authority to enter the Technology Maturation and Risk Reduction (TMRR) phase.
- On 29 July 16, the LRSO program office released the formal TMRR request for proposals to industry.
- Prepared for TMRR source selection with expanded staff as well as facilities and security infrastructure upgrades.
- Continued to develop and implement secure communications between Department of Defense and Department of Energy to support interagency warhead life extension program.

Joint Surveillance Target Attack Radar System (JSTARS) Recapitalization (Recap)

As part of the Air Force's program to recapitalize the legacy E-8C fleet, two major activities occurred in Fiscal Year 2016: (1) completion of a Technology Maturation and Risk Reduction (TMRR) project; and initiation of a Radar Risk Reduction (RRR) project. The TMRR effort included design and development work from three potential JSTARS Recap Engineering and Manufacturing Development contractors. This work resulted in three preliminary design reviews and multiple sub-system demonstrations. In addition, the RRR project is making steady progress towards improving the manufacturing readiness and advancing/scaling of two potential radar designs. The capstone event for RRR is a Maturity Design Review planned for 3rd Quarter Fiscal Year 2017.

Military Global Positioning System User Equipment Increment 1

Military GPS User Equipment (MGUE) Increment 1 is responsible for the development of standard modernized receiver form factors for service-nominated lead platforms identified in the Joint Requirements Oversight Council (JROC)-approved MGUE Capabilities Development Document (CDD). MGUE will deliver significantly improved capability for Global Positioning System (GPS) receivers to counter emerging position, navigation and timing (PNT) threats and enable military operations in GPS-denied and Navigation Warfare (NavWar) environments where current legacy receiver performance would be compromised.

MGUE Increment 1 is in the Technology Development phase; Increment 2 received a Materiel Development Decision and authority to enter into the Materiel Solution Analysis phase in accordance with the Acquisition Decision Memorandum (ADM) dated 9 Apr 2012. Technology maturation showed MGUE beyond the typical Technology Development phase which provides the opportunity to accelerate delivery of M-Code capability to the warfighter up to five years

ahead of schedule. As a result, OUSD (AT&L) approved a commercial market driven acquisition strategy for Increment 1 that enables the program to go directly from Technology Development and Milestone B approval into production. Lead Platform integration is currently underway. Final test articles have been received by the Government from all three MGUE vendors. All four Lead Platform Support Agreements are complete.

Space Security and Defense Program

The Space Security and Defense Program (SSDP) is a Joint Department of Defense (DoD) and Office of the Director of National Intelligence (ODNI) organization established to function as the center of excellence for options and strategies (materiel, non-materiel, cross-community, cross-domain) leading to a more resilient and enduring National Security Space (NSS) Enterprise. In FY16, SSDP completed efforts resulting in the delivery and implementation of specific cyber and materiel solutions to emergent capability needs. Examples include:

- Chartered by OSD-CAPE to conduct the analysis for the 2106 Space Strategic Portfolio Review. This analysis and out-brief specifically addressed Battle Management Command and Control architectures and mission gaps as well as recommendations going forward for the investments made in the joint DoD and ODNI communities.
- Provided policy-makers specialized technical assistance, protection-specific data/findings, and validated recommendations regarding the impacts that policy/strategy changes may have on our protection of NSS capabilities.
- Supported wargames and exercises to refine Tactics, Techniques, and Procedures (TTPs) and Concept of Operations (CONOPS) for space-protection tenets, and developed/integrated rapid prototyping capabilities for key mission areas.
- Developed and delivered validated response options to Combatant Commanders (CCMDRs) for various threats.
- Provided strategic messages for a variety of key DoD and Intelligence Community (IC) activities.

Ground Based Strategic Deterrent (GBSD)

The Ground Based Strategic Deterrent (GBSD) acquisition program is a recapitalization for the Minuteman III (MMIII) Intercontinental Ballistic Missile (ICBM) Weapon System (WS). This includes a new missile system, new WS Command and Control (WSC2) systems, new ground systems, and the restoration and modernization of the MMIII silos and Launch Control Centers (LCCs). In FY16, previous efforts funding the Solid Rocket Motor Modernization (SRMM) and the Guidance Modernization Program (GMP) in Program Element (0101213F) were consolidated and transferred to the newly formed GBSD Program Element (0605230F). Specific FY16 accomplishments include:

- On 23 Aug 16, USD (AT&L) signed the GBSD Milestone A Acquisition Decision Memorandum (ADM) granting the GBSD program authority to enter the Technology Maturation and Risk Reduction (TMRR) phase.
- On 29 July 16, the GBSD program office released the formal TMRR solicitation to industry.
- Guidance efforts in FY16 included analyzing and assessing advanced guidance instruments and electronic components to support GBSD strategic guidance requirements. Efforts included conducting technology development, concept analysis

and design efforts to identify areas for guidance integration to support GBSD trade space options.

- In FY16, propulsion efforts analyzed and assessed solid rocket motors and associated components to inform GBSD strategic propulsion requirements.

System Development and Demonstration:

KC-46

The KC-46 is the next generation Aerial Refueling Tanker and will replace approximately one third of the aging Legacy Tanker fleet. The aircraft is a militarized commercial derivative of the Boeing 767-200. The KC-46 will provide aerial refueling support to the Air Force, Navy, and Marine Corps as well as allied nation coalition force aircraft, plus increased capabilities for cargo and aeromedical evacuation. Significant FY2016 accomplishments include:

- Engineering & Manufacturing Design (EMD) Aircraft: The program delivered EMD aircraft #3 and #4 in FY16. All four EMD aircraft will continue testing in support of FAA and military type certification, specification verification, and developmental test completion report closure.
- Milestone C: The program received Milestone C approval and awarded Low Rate Initial Production Lots 1 and 2 (19 aircraft) in Aug 16.
- Basing: The program remains on track to announce the final basing decision for Main Operating Base MOB #3 in summer 2017 and MOB #4 in winter 2017/2018. Basing announcements were previously made for the Formal Training Unit (FTU), MOB #1, and MOB #2 at Altus AFB (OK), McConnell AFB (KS), and Pease ANGB (NH), respectively.

Advanced Extremely High Frequency

The Advanced Extremely High Frequency (AEHF) System is a joint service satellite communications system that will provide survivable, global, secure, protected, and jam-resistant communications for high-priority military ground, sea and air assets. AEHF will allow the National Security Council and Unified Combatant Commanders to control their tactical and strategic forces at all levels of conflict through general nuclear war and supports the attainment of information superiority. The AEHF System is the follow-on to the Milstar system, augmenting and improving on the capabilities of Milstar, and expanding the MILSATCOM architecture.

On 28 July 2015, the Commander of Air Force Space Command declared Initial Operational Capability (IOC) for the AEHF program. IOC includes mission supported, active networks and two separate satellites operating in the AEHF mode. The operational control segment consists of one fixed and one transportable control element and an interim fully operational communications management system. Mission Planning Element (MPE) Increment 7.6 was delivered to the government in June 2015 and made available to operations in January 2016 after testing was completed. The follow-on increment (MPE Increment 8.0) was awarded to Lockheed Martin on 1 July 2015 to resolve remaining deficiencies, integrate Family of Advanced Beyond-line-of-sight Terminals (FAB-T) and Global Assent terminals, and increase system capacity. MPE Increment 8.1, awarded to Lockheed Martin in June 2016, will deliver faster tactical planning and improved international partner communications planning.

Space Based Infrared System (SBIRS)

The Space Based Infrared System (SBIRS) is an integrated, incrementally-deployed system of satellites that provides initial warning of ballistic missile attack on the U.S., its deployed forces, or its allies. SBIRS supports the missile warning, missile defense, battlespace awareness, and technical intelligence mission areas. It is a more-capable successor to the Defense Support Program (DSP).

GEO-1 and GEO-2 satellites were accepted for missile warning operations in November 2013, joining the previously certified HEO-1 and -2 payloads as part of the SBIRS constellation, providing greater capabilities than legacy systems. The HEO-3 payload is now on orbit while HEO-4 payload completed production and was delivered to the host satellite for integration in May 2015. GEO-3 satellite completed production in July 2015 and was delivered into storage. GEO satellites 5 and 6 continue in production. The SBIRS GEO-4 satellite, usually referred to as GEO Flight-3, was successfully delivered to Cape Canaveral Air Force Station, Florida, and was manifested to be launched in October 2016, but due to an unresolved potential parts issue, the launch slipped. A new launch date has yet to be determined.

Operational acceptance of the Block 10 ground system will consolidate legacy Defense Support Program (DSP), SBIRS HEO, and SBIRS GEO satellite ground systems from three locations into one primary location and a backup. The primary operations location is the Mission Control System-2 (MCS-2) at Buckley AFB, CO, and the secondary operations location is the Mission Control System Backup-2 (MCSB-2) at Schriever AFB, CO. The consolidation provides a significant reduction in manpower requirements and allows for improvements in mission processing capabilities. Operational Acceptance of the Block 10 ground system is expected no later than November of 2016.

Space Modernization Initiative (SMI) invests in sustaining, enhancing and evolving SBIRS. SMI improves performance of the current system and matures technologies for insertion into future satellites and payloads. SMI is ameliorating parts obsolescence, improving ground processing and intelligence integration of SBIRS on-orbit data, and developing improved sensor technologies. In an effort to exploit data from the new OPIR Battlespace Awareness Center system, the Tools, Applications, and Processing (TAP) Lab opened its doors in April 2016 and serves as a "sandbox" for developers to try out the unimaginable with this wealth of data and to transition the most promising capabilities to operations at Buckley or elsewhere. The Lab ultimately is about innovating to gain maximum exploitation and dissemination of the data. Ensuring 100% government data ownership made the TAP Lab possible with data access to a much broader base of Industry, Academia, and other government agencies.

Space Fence

Space Fence is a system of ground-based sensors to improve upon the former Air Force Space Surveillance System, a Very High Frequency radar operational from 1961 to 2013. The Space Fence will provide a more accurate and timely detection capability of smaller orbiting objects, primarily in low-earth orbit. The system will use higher frequency S-band radars at globally dispersed sites. As a result, it will greatly expand the uncued detection and tracking capability of the Space Surveillance Network from around 20,000 to up to 100,000+ objects, while working in concert with other network sensors. Increment 1/Initial Operational Capability (IOC) will consist of successful operations at the first radar site located in the Kwajalein Atoll and the Space Fence Operations Center (SOC) at Huntsville, AL. Ground breaking took place on Kwajalein Atoll in February 2015 and construction is underway, with IOC currently planned for

late CY2018. Increment 2 will include completion of the second OCONUS radar, pending funding determinations and negotiations with the proposed host nation.

B-2 Defensive Management System

The Defensive Management System Modernization (DMS-M) program enhances the B-2 direct attack capability by addressing emerging and future 21st century threats and robust modern Integrated Air Defense Systems (IADS). By leveraging “state-of-the-art” electronic warfare antennae, processors, controllers and displays, B-2 aircrews will realize unprecedented situational battlespace awareness and dynamic, real-time threat avoidance in the most complex radio frequency emitter environments. The B-2 DMS program entered into Milestone B in 1QFY16 and awarded the EMD contract in March 2016. During development, the engineering baseline will be finalized and production representative kits will be procured to support DT/OT&E, a pre-Milestone C Operational Assessment, as well as B-2 Nuclear Certification testing.

B61-12 Tailkit Assembly

The B61-12 Tailkit Assembly (TKA) is a joint Department of Defense and Department of Energy (DOE) modernization program for a portion of the Nation’s air-delivered leg of the nuclear triad. The DOE, through the National Nuclear Security Administration (NNSA) is conducting a modernization effort to life-extend the B61 family of nuclear gravity bombs designated as the B61-12 Life Extension Program (LEP). The B61-12 LEP is combining four B61 variants into the -12. The Bomb Assembly (BA) design agencies are Sandia and Los Alamos National Laboratories for the LEP. In order to maintain the required military capability for all the of the B61 variants, the United States Air Force, through the efforts of the Air Force Nuclear Weapons Center, is developing a guided Tailkit Assembly to be mated to the NNSA Bomb Assembly. The B61-12 TKA program achieved its Milestone B decision on 19 Nov 2012.

In April of 2016, the TKA program closed all remaining actions from the Critical Design Review conducted in January 2016. In addition, FY16 activities in design, test, aircraft integration, and nuclear certification continue to drive the program to the start of Developmental Testing in mid CY17 and a Milestone C in early FY19. The B61-12 is slated to become the only nuclear gravity weapon in the U.S. arsenal as outline in the Nuclear Weapons Council accepted 3+2 strategy.

Research, Development, Test and Evaluation Management Support:

The Air Force’s Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installations and operations required for testing at the Air Force Major Range and Test Facility Base (MRTFB) as well as for International Activities. It also includes the Air Force’s Small Business Technology Transfer (STTR) and Small Business Innovation Research (SBIR) program along with Air Force-Wide developmental planning efforts.

The SBIR/STTR FY16 accomplishments include the development of an Automated Sanding of Aircraft Coatings process that improves consistency and quality of surface final finish. It eliminates potential worker injuries and is suitable for aft duct finishing and other applications. The process reduces F-35 span time for inlet duct coating application sanding by 50% at Northrop Grumman (NGC) with an average time savings of 52 to 60 hours per unit in production with cost savings of \$35.6M is projected by NGC through the F-35 production cycle.

Another SBIR/STTR FY16 accomplishment is the development of a C-130 Corrosion Health Management System (CHMS). CHMS improves C-130 aircraft system sustainment by monitoring concealed corrosion in inaccessible areas where visual inspections are labor intensive. As a result this system improves system sustainment at the depot-level by reducing time and cost of corrosion-related preventative maintenance by 20%. This system can result in savings of \$25 million annually for the C-130 aircraft and \$200 million annually if applied to all aircraft/missile systems.

As part of the Air Force-Wide FY16 developmental planning efforts, the Air Force conducted an Air Superiority 2030 Enterprise Capability Collaboration Team (AS 2030 ECCT) activity to develop a multi-domain roadmap guiding future capability development activities. The resulting AS 2030 Flight Plan addresses materiel and non-materiel actions needed to ensure future air superiority.

The Test & Evaluation (T&E) Management Support effort includes operations at Arnold Engineering Development Complex (AEDC) at Arnold AFB TN, the 412 Test Wing (TW) at Edwards AFB CA, the 96 TW at Eglin AFB FL and the 96 Test Group (TG) at Holloman AFB NM.

In FY16, Developmental T&E (DT&E) fully supported F-35, KC-46, SDB II, F-22 and all legacy modernization programs. Efforts were made to increase USAF Test Pilot School production due to increasing test requirements and projected shortfalls in trained test personnel. A significant increase in wind tunnel test requirements was experienced; a trend projected to continue through FY19. Due to Air Force emphasis on cyber security, DT&E self-funded the standup of a Cyber Test Group at Eglin AFB and provisioned the growth of the unit to meet cyber testing for certain weapons systems in FY17. F-15 modernization programs began to experience test program delays due to insufficient test aircraft availability and funding, and this trend will worsen through FY19. AFMC is requesting 2 additional F-15 aircraft to increase the size of the Developmental Test (DT) fleet, however, no additional funding or manpower will be available to fully utilize of the aircraft in the near term. Internal funding reallocations allowed DT to maintain continuous 24/7 operations on the 96 TW range at Eglin AFB after FY15 POM actions reduced range operating hours to 5-day/week, 16 hr/day. The T&E enterprise retained 58 civilian overhire positions and internally reallocated \$2.844M non-pay and \$3.1M civilian pay to continue to operate the range and minimize impact on AFSOC and F-35 training. Due to the F-16 support fleet being reduced by one fourth in the FY15 POM, DT&E continues to assess and mitigate impacts to USAF Test Pilot School, weapons development programs, and all other test programs requiring safety chase and target support. KC-46 testing was supported by borrowing four F-16 aircraft from ACC and obtaining 7,000 man-days from AFRC. DT experienced a civilian pay shortfall of \$9M in FY16, which was internally sourced by reducing travel, training, equipment purchases, spare parts and Depot Level Repairables, and deferring instrumentation and diagnostic upgrades and maintenance.

Operational System Development:

Minuteman III (MM III)

The Air Force has increased investment in the MM III weapon system ensuring its safe, secure and reliable operation until replacement by the GBSD. These efforts span 450 missile launch facilities and missiles, 45 launch control centers, and flight test, training and support equipment. The MM III weapon system has been in operation since the 1970's as a critical, ground-based leg of the U.S. nuclear triad. The most significant development effort is replacement of the

Mk21/W87 warhead fuze in cooperation with similar Navy fuze development efforts employing Sandia National Laboratories as the design agent. The W87 replacement fuze will be available in 2022 on MM III and see use in GBSD as well. In 2016, new development efforts were initiated to upgrade mission equipment used by missile crews in underground launch control centers, replacement of missile launch facility monitoring and security equipment, and replacement/upgrade of other training, ground test and depot level maintenance equipment. Efforts are ongoing to further improve launch and crypto code security and handling and replace outdated field-level reentry system maintenance equipment, payload and missile booster transportation tractor/trailer vehicles, and power distribution and backup systems. Replacement and upgrade equipment will be fielded in the 2017-2020 timeframe and be in service through transition to GBSD. All MM III equipment will be assessed for continued use in supporting GBSD.

Small Diameter Bomb II

Shrinking force structure, increased tasking, evolving threats, and collateral damage avoidance will drive a demand for a precision strike capability with a mission planned datalink equipped weapon. Small Diameter Bomb (SDB) II will provide strike aircraft with a capability to attack stationary and mobile targets through the weather with standoff capability while retaining miniature munition type weapon attributes (effective day/night, adverse weather, increased load-out, focused logistics, etc.) plus the capability to attack a range of stationary targets across the combat arena. Testing during EMD is structured in a phased Test and Evaluation (T&E) approach with Phase I supporting verification of Normal Attack, Coordinate Attack, and Laser Illuminated Attack modes on the F-15E. Phase II supports integration of the full SDB II capability on the F-35B and F-35C. Operational testing will commence in 2017. The Low Rate Initial Production (LRIP) contract was awarded in June 2015, and two contract options have been exercised to date: a 144-weapon Lot 1 production contract option in June 2015 and a 250-weapon Lot 2 production contract option in Sep 2016. Production will continue through FY25.

Advanced Medium Range Air-to-Air Missile (AMRAAM)

AMRAAM is a radar-guided, air-to-air missile with capability in both the beyond visual-range and within visual-range arenas. The latest AMRAAM variant, the AIM-120D, delivers improved performance via Global Positioning System (GPS)-aided navigation, a two-way datalink capability for enhanced aircrew survivability and improved network compatibility, and incorporates new guidance software which improves kinematic performance and weapon effectiveness. The Air Force and Navy completed FOT&E of the AIM-120D Advanced Medium-Range Air-to-Air Missile (AMRAAM) in July 2014 and fielded the system in January 2015. Both services continue to develop AMRAAM improvements to counter existing and emerging air vehicle threats operating at high or low altitude, and having advanced Electronic Attack (EA) capabilities. The development program also enables AMRAAM compatibility with advanced fighters, enhances AMRAAM capability and operational flexibility against current and projected threats, incorporates high payoff technology development, performs risk reduction activities, and investigates new variants and/or alternate missions which may use AMRAAM attributes. To keep the existing inventory as effective as possible, the Air Force and Navy also develop, test, and field improvements that are implemented via software upgrades reprogrammed into fielded AMRAAMs, and/or hardware upgrades inserted into production units.

Airborne Warning and Control System (AWACS)

The Airborne Warning and Control System (AWACS) aircraft continues to modernize its mission capabilities to remain an effective airborne battle management and surveillance system for command and control of combat forces. The primary development program within the AWACS portfolio is the Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification. DRAGON is a cooperative development effort with NATO AWACS wherein the aircraft cockpit is being updated and obsolete avionics are replaced to satisfy international airspace and air traffic control mandates. Implementation of DRAGON ensures the AWACS fleet has unrestricted worldwide access to global airspace and provides numerous safety of flight updates. In FY16, previous development activity culminated in the first flight of a DRAGON modified aircraft. The first NATO CNS/ATM modified aircraft (N-1) successfully completed all EMD testing and is preparing to return to its operational base in Germany in mid November 2016. The first U.S. Air Force DRAGON modified aircraft (D-1) is nearly complete with its flight test and is preparing for its maintenance and operational flight training which will be completed in April 2017. As this development effort comes to a close there are no outstanding safety of flight issues. We anticipate receiving a Military Type Certification which approves airworthiness for this design.

AWACS also awarded contracts to begin initial development activities on the Electronic Protection (EP) and Internet Protocol (IP) Enabled Communications (IPEC) programs. The EP program will design and develop radar processing improvements, which will provide the AWACS fleet with a defensive capability for use in environments of advanced electronic attack. IPEC will upgrade the IP capability of the jet, thus establishing the high bandwidth connectivity required for secure chat and e-mail functionality. The IPEC modification, which was declared a U. S. Air Force Urgent Operational Need (UON) in 2015, enables the warfighter to receive time sensitive data required for real-time mission coordination and implementation. The UON mandates a threshold timeline to complete installation of two AWACS jets with IPEC by 21 May 2017. The program is on track to have three jets complete by that timeline.

The AWACS Block 40/45 Program is the largest modification in US AWACS history, providing a single-target / single-track capability with an improved human-machine interface for time-critical targeting. Block 40/45 is meeting the vast majority of its requirements, though operational assessments are identifying areas that require improvement. The program office is investigating deficiencies related to the Electronic Support Measures (ESM) and Maritime Mode Tracking / Surveillance capabilities and is executing a plan to field fixes by 2Q FY2017.

The AWACS program is also continuing risk reduction efforts on multiple fronts with a focus on operations in contested environments and high bandwidth / Beyond Line of Sight (BLOS) communication requirements needed to be relevant on the battlefield of tomorrow.

A twenty person team was organized from across 11 organizations to troubleshoot the connection issues with the current low bandwidth BLOS IP. In less than two months, a 25% increase in connectivity was realized restoring minimum system effectiveness. AF Central Command (AFCENT) Ground Entry Point personnel assisted 552nd Air Control Nnetworks Squadron in identifying software anomalies and then optimizing the software image used on the aircraft. The chat connection rate is in now above 80%.

Joint Air-to-Surface Standoff Missile – Extended Range

This project provides a long range (over twice the range of baseline JASSM), conventional air-to-surface, autonomous, precision-guided, low observable, standoff cruise missile compatible with fighter and bomber aircraft. The requirement for JASSM-ER is given in JASSM-ER

Capability Production Document (CPD), dated 16 Apr 2010. Aircraft integration of JASSM-ER is complete on the B-1B. Objective aircraft are B-52H, F-16C/D (Block 40-52), B-2, F-15E, and F-35. JASSM-ER provides the capability to attack a variety of high value fixed or relocatable targets with precision, through preplanned missions or target-of-opportunity, deeper into enemy territory than JASSM Baseline while minimizing the threat to launch aircraft. The Air Force developed JASSM-ER based on a contractor-developed, government- approved System Performance Specification (SPS). The program continues its development/integration efforts on the Intelligent Telemetry Instrumentation Kit (ITIK), the Electronic Safe and Arm Fuze (ESAF), and the Military Code (M-Code) receiver. Added is Wing Replacement/ Chine Development/ Integration, and Warfighting Capability Enhancement (Software) to enhance the aerodynamic performance against emerging threats. Future efforts added are Anti-Radiation Homing System (ARHS), improved Data Link capability for relocatable target attack, alternate payloads, and improved Guidance Navigation Control (GNC). The program is also evaluating Diminishing Manufacturing Sources Material Shortages (DMSMS) and reviewing obsolescence issues. This program is in Budget Activity 7, Operational System Development because this budget activity includes development efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year.

Joint Space Operations Center Mission Systems

The Joint Space Operations Center (JSpOC) is the command and control (C2) center that enables the Joint Functional Component Command for Space (JFCC SPACE) to integrate space forces for global military operations. JSpOC Mission Systems (JMS) replaced the legacy Space Defense Operations Center (SPADOC) with sustainable hardware, open and evolvable software architecture, and best-of-breed Space Situational Awareness tools. This multi-year effort plans to incrementally deliver a Space Situational Awareness (SSA) and Space C2 capability for the Commander of JFCC SPACE.

JMS lays the groundwork for a predictive battle management and command & control system with continuously evolving space operator roles and responsibilities, sensor integration and data delivery, threat warning, and rapid response capabilities. JMS is broken into multiple increments. Increment 1 entered operations in Nov 2012 and delivered a User Defined Operating Picture (UDOP) and Service Oriented Architecture as a basis for Increment 2, which is currently in operation at the JSpOC. Future capability in Increment 2 will provide the capabilities necessary to migrate off the legacy system. Enterprise Space BMC2 (formerly Increment 3) will focus on emerging threats and operational priorities that drive the need for a space battle management and C2 capability. The following is a list of technologies completed or furthered as a result of JMS:

- Modular Infrastructure & UDOP
- Space Order of Battle / Force Status / Sensor Management
- Initial Space Catalog Administration
- Initial Orbital Conjunction & Maneuver Reporting
- High Accuracy Catalog
- Conjunctions / Maneuver / Breakup / Re-Entry
- Launch Processing
- Message Processing / Tasking

General Fund

Fiscal Year 2016

Required Supplementary Information

Department of Defense
Department of the Air Force
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015
(\$ in Thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel
BUDGETARY RESOURCES:			
Budgetary Resources:			
Unobligated balance brought forward, Oct. 1	\$ 5,118,452	20,032,784	1,439,723
Unobligated balance brought forward, Oct. 1, as adjusted	5,118,452	20,032,784	1,439,723
Recoveries of prior year unpaid obligations	490,740	1,068,118	176,680
Other changes in unobligated balance (+ or -)	(324,201)	(403,385)	(404,081)
Unobligated balance from prior year budget authority, net	5,284,991	20,697,516	1,212,322
Appropriations (discretionary and mandatory)	24,525,239	45,213,560	34,803,377
Spending Authority from offsetting collections (discretionary and mandatory)	2,955,456	660,063	506,254
Total Budgetary Resources	\$ 32,765,686	66,571,139	36,521,953
Status of Budgetary Resources:			
Obligations Incurred	27,853,850	45,401,064	35,298,445
Unobligated balance, end of year			
Apportioned	4,453,505	19,542,416	233,881
Exempt from Apportionment	0	0	0
Unapportioned	156	37	0
Unexpired unobligated balance, end of year	4,453,661	19,542,453	233,881
Expired unobligated balance, end of year	458,175	1,627,622	989,627
Total unobligated balance, end of year	4,911,836	21,170,075	1,223,508
Total Budgetary Resources	\$ 32,765,686	66,571,139	36,521,953
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, October 1 (gross)	12,470,015	32,080,451	2,537,143
Obligated incurred	27,853,850	45,401,063	35,298,445
Outlays (gross) (-)	(25,617,900)	(39,192,453)	(35,598,953)
Recoveries of prior year unpaid obligations (-)	(490,740)	(1,068,118)	(176,680)
Unpaid Obligations, end of year	14,215,225	37,220,943	2,059,955
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(911,181)	(41,054)	(107,520)
Change in uncollected pymts, Fed sources (+ or -)	19,629	(44,541)	(77,935)
Uncollected pymts, Fed sources, end of year (-)	(891,552)	(85,595)	(185,455)
Obligated balance, start of year (+ or -)	11,558,834	32,039,397	2,429,623
Obligated balance, end of year (+ or -)	\$ 13,323,673	37,135,348	1,874,500
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	27,480,695	45,873,623	35,309,631
Actual offering collections (discretionary and mandatory) (-)	(3,005,631)	(976,686)	(437,072)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	19,629	(44,541)	(77,935)
Recoveries of prior year paid obligations (discretionary and mandatory)	30,546	361,165	8,753
Budget Authority, net (discretionary and mandatory)	\$ 24,525,239	45,213,561	34,803,377
Outlays, gross (discretionary and mandatory)	25,617,900	39,192,453	35,598,953
Actual offsetting collections (discretionary and mandatory) (-)	(3,005,631)	(976,686)	(437,072)
Outlays, net (discretionary and mandatory)	22,612,269	38,215,767	35,161,881
Distributed offsetting receipts (-)	0	0	0
Agency Outlays, net (discretionary and mandatory)	\$ 22,612,269	38,215,767	35,161,881

Family Housing & Military Construction	Operations, Readiness & Support	2016 Combined	2015 Combined
1,492,841	3,462,307	31,546,107	25,747,448
1,492,841	3,462,307	31,546,107	25,747,448
47,414	2,949,921	4,732,873	5,185,215
11,784	(51,331)	(1,171,214)	(1,389,847)
1,552,039	6,360,897	35,107,765	29,542,816
1,750,284	56,128,716	162,421,176	152,964,678
155,075	4,321,483	8,598,331	8,996,723
<u>\$ 3,457,398</u>	<u>66,811,095</u>	<u>206,127,271</u>	<u>191,504,217</u>
1,008,310	63,219,766	172,781,435	159,986,110
2,083,498	276,147	26,589,447	24,487,204
0	12,165	12,165	10,680
221	0	414	0
2,083,719	288,312	26,602,026	24,497,884
<u>365,369</u>	<u>3,303,017</u>	<u>6,743,810</u>	<u>7,020,223</u>
<u>2,449,088</u>	<u>3,591,329</u>	<u>33,345,835</u>	<u>31,518,107</u>
<u>\$ 3,457,398</u>	<u>66,811,095</u>	<u>206,127,271</u>	<u>191,504,217</u>
1,706,886	26,946,514	75,741,009	78,988,540
1,008,310	63,219,766	172,781,434	159,986,110
(1,060,291)	(58,262,014)	(159,731,611)	(158,048,427)
<u>(47,414)</u>	<u>(2,949,922)</u>	<u>(4,732,874)</u>	<u>(5,185,215)</u>
1,607,491	28,954,344	84,057,958	75,741,009
0	(1,158,476)	(2,218,231)	(2,348,721)
(10,050)	(33,318)	(146,215)	158,492
<u>(10,050)</u>	<u>(1,191,793)</u>	<u>(2,364,445)</u>	<u>(2,190,231)</u>
<u>1,706,886</u>	<u>25,788,038</u>	<u>73,522,778</u>	<u>76,639,819</u>
<u>\$ 1,597,441</u>	<u>27,762,551</u>	<u>81,693,513</u>	<u>73,550,778</u>
1,905,359	60,450,199	171,019,507	161,961,401
(166,300)	(4,834,183)	(9,419,872)	(10,028,463)
(10,050)	(33,318)	(146,215)	158,492
21,275	546,015	967,754	873,247
<u>\$ 1,750,284</u>	<u>56,128,713</u>	<u>162,421,174</u>	<u>152,964,677</u>
1,060,291	58,262,014	159,731,611	158,048,427
(166,300)	(4,834,183)	(9,419,872)	(10,028,463)
893,991	53,427,831	150,311,739	148,019,964
0	174,080	174,080	(5,987)
<u>\$ 893,991</u>	<u>53,601,911</u>	<u>150,485,819</u>	<u>148,013,977</u>

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

The Air Force has performance measures based on missions and outputs. The Air Force is unable to accumulate costs for major programs based on those performance measures because its financial processes and systems were not designed to collect and report this type of cost information. Until the processes and systems are upgraded, the Air Force will break out programs by major appropriation groupings.

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

HERITAGE ASSETS					
For Fiscal Year Ended September 30, 2016					
Heritage Asset Categories	Measurement Quantity	As of 9/30/15	Additions	Deletions	As of 9/30/16
Buildings and Structures	Each	6,117	101	1095	5,123
Archaeological Sites	Sites	1,974	21	160	1,835
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,278	809	472	135,615
Museum Collection Items (Fine Art)	Each	15,258	35	206	15,087

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

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

1. Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These facilities are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reported 6,117 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2015. The number of buildings/structures considered Heritage Assets in FY16 is 5,123, a total reduction of 994. The total reflects 101 facilities added to the Real Property Inventory, offset by demolition of 1,095 Buildings/Structures.

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

2. Archaeological Sites

Prehistoric and historic archaeological sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reported 1,974 archeological sites were Heritage Assets as of Sep 2014. The AF has not yet collected FY16 data on the number of archaeological Heritage Assets, and so herein reports the FY15 number, 1,835. This cohort of

archaeological Heritage Assets is a subset of over 21,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories. The AF collects previous FY archaeological Heritage Asset data in the annual Defense Environmental Program Annual Report to Congress (DEPARC) in December of the following FY. The FY16 data will be known at that time, well after the RSI Report due date.

3. Museum Collection Items, Objects

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

During the period 1 October 2015 – 30 September 2016 there have been 809 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 472 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2016 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well as extensive conservation work on the museum's "Presidential" aircraft, Global Reach aircraft, and the Apollo 15 spacecraft culminating in their placement in the NMUSAF's newly constructed 4th building which opened to the public in June 2016.

4. Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1072 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

Stewardship Land

STEWARDSHIP LAND For Fiscal Year Ended September 30, 2016 (Acres in Thousands)					
Facility Code	Facility Title	As of 9/30/15	Additions	Deletions	As of 9/30/16
9110	Government Owned Land	1,565	0	4	1,561
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,267	4	0	6,271
9130	Licensed and Permitted Land	735	0	0	735
9140	Public Land	0	0	0	0
9210	Land Easement	160	0	0	160
9220	In-leased Land	103	0	0	103
9230	Foreign Land	295	0	0	295
Grand Total					9,125
Total - All Lands					
Total - Stewardship Lands					

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

The Air Force has 9,126,469 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

REAL PROPERTY DEFERRED MAINTENANCE

Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2016 (\$ in Millions)			
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance)	Percentage
Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$241,559	\$3,899	1.6%
Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	\$12,028	\$8	0.1%
Category 3: Buildings, Structures, and Utilities (Heritage Assets)	\$33,201	\$441	1.3%

Condition Assessment Survey Method - The deferred maintenance figures in column 2 consist of the current known maintenance and repair requirements needed to correct facility deficiencies in the AF inventory. AF Q-Ratings have historically not been based off direct condition assessments, but represent identified requirements by engineers at the installation level. In 2013 the Air Force implemented a sustainment management system (SMS) condition assessment method, including contract condition inspections at the installations and trained the in-house personnel. Implementation is estimated to take about five years. In the meantime, as the Q-Ratings (called Facility Condition Index (FCI) in the SMS) are available, we use them in the Facility Quality Rating reporting as part of the annual report on real property to OSD. The figures in this report contain a mix of inspection data and requirements identified by installation engineers.

The figures in Column 1 were calculated based off of an estimate of the current aggregate PRV of all facilities (buildings, structures, and utilities) in the AF Real Property inventory of which the DoD has ownership interest broken down by enduring, excess, and heritage.

Ownership interest includes assets that AF holds title to, as opposed to those assets owned by foreign governments, leased facilities, out-grants, or other federal and non-federal entities. The figures in this report are similar to the last report submitted, with the exception of Heritage Assets.

Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2016 (\$ in Thousands)			
Major Categories	PB-45 Amounts	Adjustments	Total
1. Aircraft	\$ 2,481,808	\$ (2,313,340)	\$ 168,468
2. Automotive Equipment	3,260	(3,260)	0
3. Combat Vehicles	13,449	(13,449)	0
4. Construction Equipment	0	0	0
5. Electronic and Communications Systems	684,084	(684,084)	0
6. Missiles	36,326	(36,326)	0
7. Ships	0	0	0
8. Ordnance Weapons and Munitions	7,574	(7,574)	0
9. General Purpose Equipment	28,907	(28,907)	0
10. All Other Items Not Identified to Above Categories	11	(11)	0
Total	\$ 3,255,419	\$ (3,086,951)	\$ 164,468

Weapon System Sustainment (WSS)

Deferred Maintenance and Repairs (M&R) for Fiscal Year 2016

Weapon System Sustainment (WSS) is very diverse and encompasses over 120 weapon systems throughout the world supporting 12 Service Core Functions. Those weapon systems consist of fly (fixed-wing and rotary wing) and non-fly systems. Fly systems are maintained to meet airworthiness standards and all weapon systems (fly and non-fly) are sustained to perform their assigned mission by the most economical means. Most requirements within WSS are considered Capitalized General Plant, Property, and Equipment (PP&E).

Defining and Implementing M & R Policies in Practice

As permitted under Statements of Federal Financial Accounting Standards (SFFAS) 42, Deferred Maintenance and Repairs, amending SFFAS 6, 14, 29 and 32, several different Basis of Estimate methodologies determine maintenance and repair requirements. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. During the development of WSS maintenance and repair requirements, approved Force Structure changes are incorporated. Maintenance and repair requirements change from the time of publishing in support of the Program Objective Memorandum (POM) to development of the execution plan for the upcoming execution year. This reflects the most current requirement and funded customer order to support organic depot workload for planning materials and labor. During the WSS mid-year execution review, program office personnel receive guidance to reduce maintenance and repair requirements to what will execute that year unless deferred to another year. If this action would drive deferred maintenance and repair, the requirement remains as unfunded. One of two follow-on actions will occur depending on what fiscal year the maintenance and repair requirement is deferred. First, if there is available capacity the following execution year, the deferral will be added as an Out-of-Cycle (OOC) requirement. Second, if there is no additional capacity in the following year, the deferral will be added during the normal scheduled requirements development in support of the next POM, which leaves sufficient lead-time for development of capacity.

Ranking and Prioritizing M & R Activities

The program office prioritizes maintenance and repair requirements during the requirements development phase in collaboration with the lead command. Risk-based methodologies determine the acceptable operational risk during the building of the POM and Execution Plan. During the execution year, emerging requirements and real world events drive review and reprioritization of maintenance and repair. During the mid-year execution review, programs adjust requirements to what will execute by end-of-year unless the requirement defers to a following year.

Factors Considered in Setting Acceptable Condition

WSS entity defines acceptable condition using Life-cycle costing

Significant Changes from Prior Year and Related Events

The total in deferred requirements of \$168,468M is due to deferring:

- A-10 - \$32.428M of aircraft heavy maintenance tasks deferred on four aircraft due to depot capacity

- ICBM - \$10.787M
- \$8.520M new requirement for integration support was not validated in time to award contract by EOY
- \$2.267M new requirement for hardness testing was not validated in time to award contract by EOY
- T-38 - \$6.053M of aircraft heavy depot maintenance and exchangeables deferred due to depot capacity
- E-8 - \$27.156M, program did not induct eleven out of fourteen required engines due to lower consumption of engine spares in the inventory.
- F-15 - \$4.096M, due to the program office placing an aircraft on a PDM hold status pending divestiture decision; requirement deferred pending enterprise level fleet decision
- C-130 - \$84.554M, program did not induct sixteen out of thirty-one required aircraft due to the scheduled Total Force divestiture of the C-130 through the FYDP, the weapon system functional reviewed the induction dates of the fleet to reflow the inductions into the out years.
- C-17 - \$3.394M, due to award schedule of contract, the program manager moved this maintenance to a more realistic schedule in the 2nd quarter of FY17

Deferred Maintenance and Repair Costs

(Dollars in Millions)

Asset Category	2016 Ending Balance DM&R	2016 Beginning Balance DM&R
General PP&E	\$0	\$0
Total	\$168,468M	\$0

General Fund

Fiscal Year 2016

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

May 3, 2017

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2016
and FY 2015 Basic Financial Statements
(Project No. D2016-D000FT-120.000, Report No. DODIG-2017-006)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Air Force General Fund consolidated balance sheet as of September 30, 2016, and 2015, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

***Management's Responsibility for the Annual
Financial Statements***

Air Force management is responsible for the annual financial statements. Management is responsible for: (1) preparing financial statements that conform with U.S. generally accepted accounting principles (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Air Force's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements," August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force General Fund FY 2016 and FY 2015 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Air Force General Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2016. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force General Fund FY 2016 and FY 2015 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," October 7, 2016, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements."

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements, and compliance with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Air Force General Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. It was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements, and accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller). The Assistant Secretary of the Air Force (Financial Management and Comptroller) officials expressed their continuing commitment to address the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress, the OMB, the U.S. Government Accountability Office, the Undersecretary of Defense (Comptroller)/Chief Financial Officer, DoD, Air Force management, and the DoD Office of Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Air Force General Fund's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances, for the purposes of expressing our opinion on the basic financial statements, but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal controls to include providing reasonable assurance that Air Force personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal controls over financial reporting, and we do not do so. However, the following material weaknesses and significant deficiencies continue to exist that could adversely affect Air Force General Fund financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force General Fund financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure the proper safeguards for assets to deter fraud, waste, and abuse and provide adequate support

for performance-measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of legacy Air Force financial management and feeder systems did not allow them to collect and record financial information based on a full-accrual accounting basis at the transaction level. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Operating Materials and Supplies. The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, “Accounting for Inventory and Related Property,” to use the historical cost to value its Operating Materials and Supplies inventory. This statement also requires that an expense be recorded for Operating Materials and Supplies when the user consumes such items. The Air Force has acknowledged that it did not always use the consumption method to recognize the related expense for significant amounts of Operating Materials and Supplies. Accordingly, management was not certain that the Operating Materials and Supplies balances reported in its Basic Financial Statements were accurate.

Contractor-Managed/Possessed Property–Operating Materials and Supply. The Air Force did not have assurance over the existence and completeness of Government-furnished property (Operating Materials and Supplies) in the possession of contractors. The contractor-managed property was not accounted for in an Air Force-accountable property system of record.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, “Accounting for Property, Plant, and Equipment,” requires the Air Force to record General Property, Plant, and Equipment data using acquisition cost, capitalized improvement costs, and depreciation expense. The Air Force acknowledged that it cannot validate the accuracy of the Property, Plant, and Equipment line and needs to improve internal control over recording real property journal entries as well as reporting construction-in-progress and related expenses. Air Force General Fund management asserted to us that the material weakness within General Property, Plant, and Equipment no longer exists. We requested detailed information regarding the improvements. Air Force General Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2016. Therefore, this material weakness continued to exist for FY 2016.

Government Property in Possession of Contractors. Statement of Federal Financial Accounting Standards No. 6, “Accounting for Property, Plant, and Equipment,” requires that the Government report on its Balance Sheet the property and equipment in the possession of a contractor for use in accomplishing a contract. Government property should be accounted for based on the nature of the item, regardless of who has possession. The Air Force has acknowledged that its balance did not include the cost of all Government-furnished material in the possession of contractors. As a result, the Air Force did not reliably report the value of its property and material in the possession of contractors.

Environmental Liabilities. Air Force environmental coordinators cannot support some environmental cleanup cost estimates provided for in yearend financial reports. Also, the reported active environmental liabilities lack consistency and standardization of business practice.

Statement of Net Cost. Statement of Federal Financial Accounting Concepts No. 2, “Entity and Display,” requires that the Statement of Net Cost present gross and net cost information for major organization and programs and data related to its outputs and outcomes. The Air Force acknowledged that it accumulates the amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs, as required. In addition, the Air Force did not accumulate cost information in accordance with U.S. GAAP. Thus, the Statement of Net Cost may not report all actual costs or may report costs not actually incurred.

Intragovernmental Eliminations. Air Force accountants did not always identify intragovernmental trading partners when recording transactions. Thus, the Air Force could not properly eliminate all transactions among its internal organizational elements. In addition, the Air Force could not reconcile intragovernmental transactions and balances between its DoD and other Federal trading partners. This may prevent the Air Force from properly eliminating all of its intragovernmental transactions.

Accounting Entries. The Air Force acknowledged that it continued to enter material amounts of accounting adjustments without adequate detailed transaction support. Additionally, there were material transactions that the Air Force did not properly record in the accounting records underlying the Basic Financial Statements or the disclosed notes to the Basic Financial Statements. The lack of adequate supporting documentation for material adjustments prevents an audit of the related financial statement amounts.

Reconciliation of Net Cost of Operations to Budget. Statement of Federal Financial Accounting Standards No. 7, “Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting,” requires a reconciliation of resources obligated during the accounting period to the net cost of operations for that period. The Air Force accomplishes this through Note 21, “Reconciliation of Net Cost of Operations to Budget,” to the Basic Financial Statements. However, as we state in the preceding paragraphs, the amounts presented in the Consolidated Statement of Net Costs and assets and liabilities reported in the Balance Sheet may be inaccurate. As a result, the Air Force may have not accurately reconciled budgetary amounts to actual proprietary expenses and assets and liabilities.

Material Weaknesses Identified During FY 2016

During FY 2016, Air Force management identified the following material weaknesses.

Financial Reporting. The Air Force is unable to validate the completeness of the universe of transactions underlying the financial statements. To validate the completeness of transactions, feeder systems have to be reconciled to the General Accounting and Finance System – Re-engineered General Ledger.

Oversight and Monitoring. The Air Force is not always able to provide supporting documentation to evidence the performance of relevant internal controls. In addition, the Air Force cannot provide complete flowcharts and narratives depicting Air Force processes and the internal controls that govern the processes.

Previously Identified Significant Deficiencies

Management acknowledged that previously identified significant deficiencies continue to exist. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The following significant deficiencies continue to exist.

Fund Balance With Treasury. Air Force management acknowledged that further improvements were required to enable the Fund Balance With Treasury reconciliation process to reduce the amount of unresolved reconciling items that were outstanding in excess of Treasury guidelines of 60 days. The Air Force's implementation of this internal control to reconcile its balances to the Treasury by itself does not ensure that Fund Balance With Treasury is ready for audit or presented fairly in accordance with U.S. GAAP.

Accounts Receivable. The Air Force did not properly reconcile and support the validity of the Accounts Receivable line item due to deficiencies related to intragovernmental trading partner eliminations and proper accrual accountability and support.

Accounts Payable. The Air Force did not ensure the accuracy of the amount of the Accounts Payable line item because there were deficiencies identified in the areas of intragovernmental trading partner eliminations, accruals, supporting documentation. These deficiencies result in an inability to properly reconcile and support the validity of Accounts Payable.

Reimbursable Programs. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires the Air Force to track the cost of performing work reimbursed by other Government entities or by non-Federal customers. Statement of Federal Financial Accounting Concepts No. 1 defines costs as a measure of resources (personnel, material, and equipment) used to accomplish the work. The Air Force has acknowledged that its reimbursable programs may not recover all billable costs incurred in the fulfillment of reimbursable orders. Specifically, the Air Force did not always identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were not properly billed to the customer.

These financial management control deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Air Force may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Air Force reported the material weaknesses described above in its FMFIA report, except for General Property, Plant, and Equipment.

Report on Compliance With Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Air Force General Fund complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), the Air Force and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2016, Air Force General Fund reported no ADA violations.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, establishes timeframes for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. Four investigations of potential ADA violations have been open for more than 15 months.

Compliance With FFMIA Requirements

The FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA. The Air Force is committed to becoming audit ready and ultimately achieving an unmodified audit opinion. The Air Force made significant progress to provide auditable financial statements by September 30, 2017. The Air Force is using findings from the FY 2016 Schedule of Budgetary Activity audit to better prepare for the FY 2017 Schedule of Budgetary Activity audit and full financial statement audit in FY 2018.

For FY 2016, the Air Force General Fund did not substantially comply with the FFMIA. The Air Force acknowledged to us that Air Force General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2016. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force General Fund complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

Working Capital Fund Principal Statements

Fiscal Year 2016

The FY 2016 Department of the Air Force Working Capital Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Working Capital Fund for the fiscal year ending September 30, 2016, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2015.

The following statements comprise the Department of the Air Force Working Capital Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2016 and 2015 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2016 and 2015.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2016 and 2015, the status of these resources at September 30, 2016 and 2015, and the outlay of budgetary resources for the years ended September 30, 2016 and 2015.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2016 and 2015. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."

**Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2016 and 2015**

(\$ in Thousands)	2016 Consolidated	2015 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 1,424,254	\$ 1,417,240
Accounts Receivable (Note 5)	802,295	781,679
Other Assets (Note 6)	191,874	319,715
Total Intragovernmental Assets	\$ 2,418,423	\$ 2,518,634
Accounts Receivable, Net (Note 5)	12,242	1,725
Inventory and Related Property, Net (Note 9)	23,341,427	23,437,813
General Property, Plant and Equipment, Net (Note 10)	1,590,966	1,593,817
Other Assets (Note 6)	180,364	177,548
TOTAL ASSETS	\$ 27,543,422	\$ 27,729,537
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 154,594	\$ 176,830
Other Liabilities (Note 15 & 16)	56,728	54,285
Total Intragovernmental Liabilities	\$ 211,322	\$ 231,115
Accounts Payable (Note 12)	\$ 476,034	\$ 538,004
Military Retirement and Other Federal Employment Benefits (Note 17)	191,466	188,872
Other Liabilities (Note 15 and Note 16)	376,879	424,244
TOTAL LIABILITIES	\$ 1,255,701	\$ 1,382,235
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	26,252	0
Cumulative Results of Operations - Other Funds	26,261,469	26,347,302
TOTAL NET POSITION	\$ 26,287,721	\$ 26,347,302
TOTAL LIABILITIES AND NET POSITION	\$ 27,543,422	\$ 27,729,537

Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)	2016 Consolidated	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 26,347,302	\$ 26,609,982
Beginning balances, as adjusted (Includes Funds from	26,347,302	26,609,982
Dedicated Collections - See Note 23)		
Budgetary Financing Sources:		
Appropriations used	36,646	68,517
Nonexchange revenue	(22)	(74)
Transfers-in/out without reimbursement	(447,000)	(200,000)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(23,178)	(57,909)
Imputed financing from costs absorbed by others	161,137	149,208
Other (+/-)	138,004	271,237
Total Financing Sources (Includes Funds from Dedicated	(134,413)	230,979
Collections - See Note 23)		
Net Cost of Operations (+/-) (Includes Funds from	(48,580)	493,659
Dedicated Collections - See Note 23)		
Net Change	(85,833)	(262,680)
Cumulative Results of Operations (Includes Funds from	26,261,469	26,347,302
Dedicated Collections - See Note 23)		
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated	\$ 0	\$ 6,801
Collections - See Note 23)		
Beginning balances, as adjusted	0	6,801
Budgetary Financing Sources:		
Appropriations transferred-in/out	62,898	61,717
Other adjustments (+/-)	0	(1)
Appropriations used	(36,646)	(68,517)
Total Budgetary Financing Sources (Includes Funds from	26,252	(6,801)
Dedicated Collections - See Note 23)		
Unexpended Appropriations (Includes Funds from	26,252	0
Dedicated Collections - See Note 23)		
Net Position	26,287,721	26,347,302

Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)	2016 Combined	2015 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	1,392,940	993,356
Unobligated balance brought forward, Oct 1, as adjusted	\$ 1,392,940	\$ 993,356
Recoveries of unpaid prior year obligations	6,788	32,654
Other changes in unobligated balance (+ or -)	(453,788)	(232,654)
Unobligated balance from prior year budget authority, net	945,940	793,356
Appropriations (discretionary and mandatory)	62,898	61,717
Contract Authority (discretionary and mandatory)	9,872,671	9,236,405
Spending Authority from offsetting collections (discretionary and mandatory)	6,654,155	6,661,199
Total Budgetary Resources	17,535,664	16,752,677
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	16,110,818	15,359,737
Unobligated balance, end of year:		
Apportioned, unexpired accounts	1,424,846	1,392,940
Unexpired unobligated balance, end of year	1,424,846	1,392,940
Unobligated balance, end of year (total)	1,424,846	1,392,940
Total Budgetary Resources	17,535,664	16,752,677
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	6,711,809	6,605,017
New obligations and upward adjustments	16,110,818	15,359,737
Outlays (gross) (-)	(15,598,138)	(15,220,291)
Recoveries of prior year unpaid obligations (-)	(6,788)	(32,654)
Unpaid obligations, end of year	7,217,701	6,711,809
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,057,053)	(4,148,694)
Change in uncollected pymts, Fed sources (+ or -)	(58,329)	91,641
Uncollected pymts, Fed sources, end of year (-)	(4,115,382)	(4,057,053)
Memorandum Entries:		
Obligated balance, start of year (+ or -)	2,654,756	2,456,323
Obligated balance, end of year (+ or -)	3,102,319	2,654,756

Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015

(\$ in Thousands)	2016 Combined	2015 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	16,589,724	15,959,321
Actual offsetting collections (discretionary and mandatory) (-)	(15,989,254)	(15,960,493)
Change in uncollected payments, Federal	(58,329)	91,641
Sources (discretionary and mandatory) (+ or -)		
Recoveries of prior year paid obligations (discretionary and mandatory)	0	2
Budget Authority, net (total) (discretionary and mandatory)	542,141	90,471
Outlays, gross (discretionary and mandatory)	15,598,138	15,220,291
Actual offsetting collections (discretionary and mandatory) (-)	(15,989,254)	(15,960,493)
Outlays, net (total) (discretionary and mandatory)	(391,116)	(740,202)
Agency Outlays, net (discretionary and mandatory)	(391,116)	(740,202)

Working Capital Fund

Fiscal Year 2016

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Note 1.

Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force Working Capital Fund (AFWCF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the AFWCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the AFWCF is responsible unless otherwise noted.

The AFWCF is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The AFWCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The AFWCF continues to implement process and system improvements addressing these limitations.

The AFWCF currently has five auditor identified financial statement material weaknesses: (1) AFWCF lacks an integrated financial management system, (2) AFWCF cannot always reconcile Spending Authority from Offsetting Collections with transactional detail, (3) supply management systems do not provide sufficient audit trails to confirm and value the in transit inventory reported as part of inventory held for sale on the Consolidated Balance Sheet, (4) AFWCF cannot accurately identify all intragovernmental transactions by customer, which is required for eliminations when preparing consolidated financial statements, and (5) AFWCF may have material amounts of account adjustments that are not adequately supported.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the DoD and made the Air Force a department within DoD. The overall mission of the United States Air Force is to fly, fight and win...in air, space and cyberspace. Our priorities are: (1) continue to strengthen the nuclear enterprise, (2) partner with Joint and Coalition team to win today's fight, (3) develop and care for Airmen and their families, (4) modernize our air and space inventories, organizations, and training, and (5) recapture acquisition excellence.

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

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

The mission of CSAG is supply management of reparable and consumable items, and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage reparable and consumable items for which the Air Force is the Inventory Control Point. The Supply Division manages

more than 106 thousand items that are generally related to weapon systems and ground support, and include both depot level reparable and non-depot level reparable.

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

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages nearly 1.1 million consumable supply items related to maintenance, flying hour program, and installation functions. The majority are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division procures and manages nearly 9 thousand different medical supply items and equipment necessary to maintain an effective Air Force Health Care system for the active military, retirees and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AFWCF is unable to meet all full accrual accounting requirements. This is primarily because many of the AFWCF's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The AFWCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of AFWCF sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated AFWCF level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all AFWCF's financial and nonfinancial feeder systems and processes are able to collect and report financial information as

required by USGAAP, there will be instances when the AFWCF's financial data will be derived from budgetary transactions or, data from nonfinancial feeder systems.

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable and unbilled revenue. In the case of OM&S, the consumption method is used. Under the consumption method, OM&S is expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The AFWCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require an entity to eliminate intraentity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, the AFWCF cannot accurately identify intragovernmental transactions by customer because AFWCF's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While AFWCF is unable to fully reconcile intragovernmental transactions with all federal agencies, AFWCF is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the AFWCF by another Federal entity. The AFWCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; and (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, AFWCF's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.J. Cash and Foreign Currency

Not applicable.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The AFWCF values its resale inventory using the moving average cost method. However, most transitioned balances were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

The AFWCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in AFWCF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The AFWCF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

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

The AFWCF recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by AFWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The AFWCF often relies on weapon systems and machinery no longer in production. As a result, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related

to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

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

Not applicable.

1.O. General Property, Plant and Equipment

The AFWCF's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property) and are carried at the remaining net book value.

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

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

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires AFWCF maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The AFWCF has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

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

1.Q. Leases

Not applicable.

1.R. Other Assets

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

The AFWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, AFWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The AFWCF has not fully implemented this policy primarily due to system limitations.

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

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

The AFWCF reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

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

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

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the [Component/Department] accounts payable and receivable trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable/receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable

and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Not applicable.

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not applicable.

Note 2.	Nonentity Assets
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As of September 30	2016	2015
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 0	\$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	9	32
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 9	\$ 32
3. Total Nonentity Assets	\$ 9	\$ 32
4. Total Entity Assets	\$ 27,543,413	\$ 27,729,505
5. Total Assets	\$ 27,543,422	\$ 27,729,537

Asset accounts are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity.

Nonentity assets are not available for use in the AFWCF's normal operations. The AFWCF has stewardship accountability and reporting responsibility for nonentity assets.

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

Note 3.	Fund Balance with Treasury
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As of September 30 (Amounts in thousands)	2016	2015
1. Fund Balances		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	1,424,254	1,417,240
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	\$ 1,424,254	\$ 1,417,240
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 2,259,902	\$ 2,429,002
B. Fund Balance per AFWCF	1,424,254	1,417,240
3. Reconciling Amount	\$ 835,648	\$ 1,011,762

The reconciling amount represents \$835.6 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations Working Capital Funds reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2016	2015
1. Unobligated Balance		
A. Available	\$ 1,424,846	\$ 1,392,940
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	\$ 7,217,701	\$ 6,711,809
3. Nonbudgetary FBWT	\$ 0	\$ 0
4. NonFBWT Budgetary Accounts	\$ (7,218,293)	\$ (6,687,509)
5. Total	\$ 1,424,254	\$ 1,417,240

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The AFWCF has no restrictions on unobligated balances.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

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

Note 4.	Investments and Related Interest
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AFWCF has no Investments and Related Interest.

Note 5.	Accounts Receivable
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As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 802,295	N/A	\$ 802,295
2. Nonfederal Receivables (From the Public)	\$ 12,475	\$ (233)	\$ 12,242
3. Total Accounts Receivable	<u>\$ 814,770</u>	<u>\$ (233)</u>	<u>\$ 814,537</u>

As of September 30	2015		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	\$ 781,679	N/A	\$ 781,679
2. Nonfederal Receivables (From the Public)	\$ 2,524	\$ (799)	\$ 1,725
3. Total Accounts Receivable	<u>\$ 784,203</u>	<u>\$ (799)</u>	<u>\$ 783,404</u>

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

Note 6.	Other Assets
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As of September 30	2016	2015
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 28	\$ 27
B. Other Assets	191,846	319,688
C. Total Intragovernmental Other Assets	\$ 191,874	\$ 319,715
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 171,889	\$ 171,574
B. Advances and Prepayments	7,574	5,449
C. Other Assets (With the Public)	901	525
D. Total Nonfederal Other Assets	\$ 180,364	\$ 177,548
3. Total Other Assets	\$ 372,238	\$ 497,263

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

Outstanding Contract Financing Payments includes \$159.7 million in contract financing payments and an additional \$12.2 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

The \$191.9 million in Intragovernmental Other Assets - Other Assets is comprised of Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

The \$901.1 thousand in Nonfederal Other Assets – Other Assets (With the Public) is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistical system, but have not yet updated the appropriate labor account in the accounting system.

Note 7.	Cash and Other Monetary Assets
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AFWCF has no Cash and Other Monetary Assets.

Note 8.	Direct Loans and Loan Guarantees
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AFWCF has no Direct Loans and/or Loan Guarantee Programs.

Note 9.	Inventory and Related Property
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As of September 30	2016	2015
(Amounts in thousands)		
1. Inventory, Net	\$ 23,210,893	\$ 23,306,262
2. Operating Materials & Supplies, Net	130,534	131,551
3. Stockpile Materiel, Net	0	0
4. Total	\$ 23,341,427	\$ 23,437,813

Inventory, Net

As of September 30	2016			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

(Amounts in thousands)

1. Inventory Categories

A. Available and Purchased for Resale	\$	12,402,957	\$	0	12,402,957	MAC,FIFO, LAC
B. Held for Repair		14,388,082		(3,583,068)	10,805,014	LAC,MAC
C. Excess, Obsolete, and Unserviceable		484,265		(484,265)	0	NRV
D. Raw Materials		0		0	0	MAC,SP,LAC
E. Work in Process		2,922		0	2,922	AC
F. Total	\$	27,278,226	\$	(4,067,333)	23,210,893	

As of September 30	2015			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	

(Amounts in thousands)

1. Inventory Categories

A. Available and Purchased for Resale	\$	12,932,915	\$	(65,548)	12,867,367	MAC,FIFO, LAC
B. Held for Repair		13,830,129		(3,393,124)	10,437,005	LAC,MAC
C. Excess, Obsolete, and Unserviceable		750,556		(750,556)	0	NRV
D. Raw Materials		0		0	0	MAC,SP,LAC
E. Work in Process		1,890		0	1,890	AC
F. Total	\$	27,515,490	\$	(4,209,228)	23,306,262	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

LCM = Lower of Cost or Market

FIFO = First-In-First-Out

MAC = Moving Average Cost

Restrictions

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

General Composition of Inventory

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Definitions

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

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

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

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

Operating Materials and Supplies, Net

As of September 30	2016			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$ 130,534	\$ 0	\$ 130,534	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	\$ 130,534	\$ 0	\$ 130,534	

As of September 30	2015			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$ 131,551	\$ 0	\$ 131,551	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	\$ 131,551	\$ 0	\$ 131,551	

Legend for Valuation Methods:

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

NRV = Net Realizable Value
 LCM = Lower of Cost or Market
 FIFO = First-In-First-Out

MAC = Moving Average Cost

General Composition of Operating Material and Supplies

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

Restrictions

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

Definition

Held for Use includes consumable parts and supplies.

Stockpile Materiel, Net

AFWCF has no Stockpile Materiel.

Note 10. General Property, Plant & Equipment, Net

As of September 30	2016				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value

(Amounts in thousands)

1. Major Asset Classes

A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20 Or 40	1,448,987	\$ (834,490)	614,497
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	1,142,636	(1,109,264)	33,372
E.General Equipment	S/L	Various	3,180,464	(2,476,190)	704,274
F.Assets Under Capital Lease	S/L	Lease Term	0	0	0
G. Construction-in-Progress	N/A	N/A	238,823	N/A	238,823
H.Other			0	0	0

I. Total General PP&E			\$ 6,010,910	\$ (4,419,944)	\$ 1,590,966
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As of September 30	2015				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value

(Amounts in thousands)

1. Major Asset Classes

A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20 Or 40	1,381,855	\$ (801,266)	580,589
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	1,143,839	(1,097,180)	46,659
E.General Equipment	S/L	Various	3,320,104	(2,358,293)	961,811
F.Assets Under Capital Lease	S/L	Lease Term	0	0	0
G. Construction-in-Progress	N/A	N/A	4,758	N/A	4,758
H. Other			0	0	0

I. Total General PP&E			\$ 5,850,556	\$ (4,256,739)	\$ 1,593,817
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1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

Assets Under Capital Lease

AFWCF has no Assets Under Capital Lease.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	2016	2015
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	39,769	42,011
D. Total Intragovernmental Liabilities	\$ 39,769	\$ 42,011
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Military Retirement and Other Federal Employment Benefits	191,466	188,873
C. Environmental and Disposal Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	\$ 191,466	\$ 188,873
3. Total Liabilities Not Covered by Budgetary Resources	\$ 231,235	\$ 230,884
4. Total Liabilities Covered by Budgetary Resources	\$ 1,024,466	\$ 1,151,351
5. Total Liabilities	\$ 1,255,701	\$ 1,382,235

The \$39.8 million in Intragovernmental Liabilities - Other Liabilities is comprised of the portion of the total Air Force Federal Employee's Compensation Act (FECA) liability allocated to the AFWCF.

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

Note 12.	Accounts Payable
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As of September 30	2016		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$	154,594	\$	N/A	\$	154,594
2. Nonfederal Payables (to the Public)		476,034		0		476,034
3. Total	\$	630,628	\$	0	\$	630,628

As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$	176,830	\$	N/A	\$	176,830
2. Nonfederal Payables (to the Public)		538,004		0		538,004
3. Total	\$	714,834	\$	0	\$	714,834

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by AFWCF. The AFWCF's systems do not track intragovernmental accounts payable transactions by customer. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by reclassifying amounts between federal and nonfederal accounts payable and applying both supported and unsupported undistributed disbursements at the reporting entity level.

Note 13.	Debt
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The AFWCF has no Debt.

Note 14.	Environmental Liabilities and Disposal Liabilities
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The AFWCF has no Environmental Liabilities and Disposal Liabilities.

Note 15.	Other Liabilities
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As of September 30

2016

Current
LiabilityNoncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	0	\$	0	\$	0
B. Deposit Funds and Suspense Account Liabilities		0		0		0
C. Disbursing Officer Cash		0		0		0
D. Judgment Fund Liabilities		0		0		0
E. FECA Reimbursement to the Department of Labor		18,144		21,625		39,769
F. Custodial Liabilities		9		0		9
G. Employer Contribution and Payroll Taxes Payable		16,950		0		16,950
H. Other Liabilities		0		0		0
I. Total Intragovernmental Other Liabilities	\$	35,103	\$	21,625	\$	56,728

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	192,422	\$	0	\$	192,422
B. Advances from Others		122,333		0		122,333
C. Deferred Credits		0		0		0
D. Deposit Funds and Suspense Accounts		0		0		0
E. Temporary Early Retirement Authority		0		0		0
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0		0		0
(2) Excess/Obsolete Structures		0		0		0
(3) Conventional Munitions Disposal		0		0		0
G. Accrued Unfunded Annual Leave		0		0		0
H. Capital Lease Liability		0		0		0
I. Contract Holdbacks		5,741		0		5,741
J. Employer Contribution and Payroll Taxes Payable		0		0		0
K. Contingent Liabilities		0		12,182		12,182
L. Other Liabilities		44,201		0		44,201
M. Total Nonfederal Other Liabilities	\$	364,697	\$	12,182	\$	376,879

3. Total Other Liabilities

	\$	399,800	\$	33,807	\$	433,607
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As of September 30	2015		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	18,771	23,238	42,009
F. Custodial Liabilities	32	0	32
G. Employer Contribution and Payroll Taxes Payable	12,244	0	12,244
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	<u>\$ 31,047</u>	<u>\$ 23,238</u>	<u>\$ 54,285</u>
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	\$ 169,924	\$ 0	\$ 169,924
B. Advances from Others	122,477	0	122,477
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	315	0	315
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	13,426	13,426
L. Other Liabilities	118,102	0	118,102
M. Total Nonfederal Other Liabilities	<u>\$ 410,818</u>	<u>\$ 13,426</u>	<u>\$ 424,244</u>
3. Total Other Liabilities	<u><u>\$ 441,865</u></u>	<u><u>\$ 36,664</u></u>	<u><u>\$ 478,529</u></u>

The \$44.2 million balance in the Nonfederal Other Liabilities – Other Liabilities primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign governments provide funds to buy their respective share of inventory that is owned and managed by the Air Force under a Cooperative Logistics Supply Support Agreement (CLSSA).

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where AFWCF is acting on behalf of another Federal entity.

Non-Federal Other Liabilities primarily consist of accruals for services, accrued liabilities for inventory owned and managed on behalf of foreign governments, and undistributed international tariff receipts.

Contingent liabilities include \$12.2 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The AFWCF is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the AFWCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Capital Lease Liability

The AFWCF has no Capital Leases.

Note 16. Commitments and Contingencies

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

The AFWCF is a party to numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, AFWCFs automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present the AFWCFs contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30

	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
2. Other Benefits			
A. FECA	\$ 191,466	\$ 0	\$ 191,466
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	\$ 191,466	\$ 0	\$ 191,466
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 191,466	\$ 0	\$ 191,466

As of September 30

	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
2. Other Benefits			
A. FECA	\$ 188,872	\$ 0	\$ 188,872
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	\$ 188,872	\$ 0	\$ 188,872
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 188,872	\$ 0	\$ 188,872

Federal Employees Compensation Act (FECA)

The AFWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and is updated at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2016
 2.261% in Year 1
 2.261% in Year 2
 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2016 were also used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2016	N/A	N/A
2017	1.31%	2.99%
2018	1.13%	3.09%
2019	1.23%	3.40%
2020	1.45%	3.68%
2021+ and thereafter	1.85%	3.87%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2016 projection to the average pattern for the projections of the most recent three years.

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

Intragovernmental Costs and Exchange Revenue

As of September 30	2016	2015
(Amounts in thousands)		
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,306,388	\$ 1,411,206
B. Nonfederal Cost	9,340,175	9,771,734
C. Total Cost	<u>\$ 10,646,563</u>	<u>\$ 11,182,940</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (10,293,438)	\$ (10,362,545)
B. Nonfederal Revenue	(401,705)	(326,736)
C. Total Revenue	<u>\$ (10,695,143)</u>	<u>\$ (10,689,281)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Cost	<u>\$ (48,580)</u>	<u>\$ 493,659</u>
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	\$ 1,306,388	\$ 1,411,206
B. Nonfederal Cost	9,340,175	9,771,734
C. Total Cost	<u>\$ 10,646,563</u>	<u>\$ 11,182,940</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (10,293,438)	\$ (10,362,545)
B. Nonfederal Revenue	(401,705)	(326,736)
C. Total Revenue	<u>\$ (10,695,143)</u>	<u>\$ (10,689,281)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>\$ 0</u>	<u>\$ 0</u>
4. Costs Not Assigned to Programs	<u>\$ 0</u>	<u>\$ 0</u>
5. (Less: Earned Revenues) Not Attributed to Programs	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Cost	<u>\$ (48,580)</u>	<u>\$ 493,659</u>

A \$1.3 billion abnormal balance exists within USSGLA 7290. The abnormal balance is the result of an ongoing inventory process to record the transfer of condemned assets from the maintenance division of the AF WCF to the Defense Reutilization and Marketing Organization (DRMO).

A \$968.2 million abnormal balance exists within USSGLA 7210. The abnormal balance is the result of an inventory process to record an exchange sale of a Depot-Level Repairable (DLR) asset.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the [Government](#)

[Performance and Results Act](#). The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government,"](#) as amended by [SFFAS No. 30, "Inter-entity Cost Implementation."](#)

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

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

The AFWCF's systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartment revenues and expenses are then eliminated.

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

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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A \$22.5 thousand abnormal balance exists in nonexchange revenue. The abnormal balance is the result of the decrease in the accrual for interest, penalties, and administrative fees on outstanding debt from the public. Once the debt has been established, only year to date (YTD) changes are recorded in the account. Since the balance in the interest, penalties, and administrative fees due from the public decreased, so too did the corresponding revenue account, resulting in the abnormal balance.

A \$1.3 billion abnormal balance exists within USSGLA 7290. The abnormal balance is the result of an ongoing inventory process to record the transfer of condemned assets from the maintenance division of the AF WCF to the Defense Reutilization and Marketing Organization (DRMO).

A \$968.2 million abnormal balance exists within USSGLA 7210. The abnormal balance is the result of an inventory process to record an exchange sale of a Depot-Level Repairable (DLR) asset. There are several steps for accounting for an exchange sale, with one of the steps resulting in a reclassification of Inventory Held for Sale to Inventory Held for Repair. It is the recording of this step that has resulted in the abnormal balance in USSGLA 7210.

The \$138.0 million in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations on the Statement of Budgetary Resources (SBR). The \$62.9 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources for further information.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of September 30 (Amounts in thousands)	2016	2015
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,223,693	\$ 5,546,940
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The AFWCF reported \$62.9 million in direct obligations and \$16.0 billion in reimbursable obligations in category B.

The SBR includes intraentity transactions because the statements are presented as combined.

The Appropriations on the Statement of Budgetary Resources (SBR) does not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP). The \$62.9 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 19, Disclosures Related to the Statement of Changes in Net Position for additional details.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of September 30

2016

2015

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$	16,110,818	\$	15,359,737
2. Less: Spending authority from offsetting collections and recoveries (-)		(16,054,371)		(15,901,508)
3. Obligations net of offsetting collections and recoveries	\$	56,447	\$	(541,771)
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	\$	56,447	\$	(541,771)

Other Resources:

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(23,178)		(57,909)
8. Imputed financing from costs absorbed by others		161,137		149,208
9. Other (+/-)		138,004		271,237
10. Net other resources used to finance activities	\$	275,963	\$	362,536
11. Total resources used to finance activities	\$	332,410	\$	(179,235)

Resources Used to Finance Items not Part of the Net**Cost of Operations:**

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	\$	(676,754)	\$	268,375
12b. Unfilled Customer Orders		81,606		(130,400)
13. Resources that fund expenses recognized in prior Periods (-)		(3,009)		(29,924)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(4,948,451)		(5,384,877)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0		0
16b. Other (+/-)		(114,826)		(213,328)
17. Total resources used to finance items not part of the Net Cost of Operations	\$	(5,661,434)	\$	(5,490,154)
18. Total resources used to finance the Net Cost of Operations	\$	(5,329,024)	\$	(5,669,389)

As of September 30

2016

2015

(Amounts in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	0	\$	0
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		(8,958)		(1,087)
23. Other (+/-)		3,362		0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	(5,596)	\$	(1,087)

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	189,656	\$	164,476
26. Revaluation of assets or liabilities (+/-)		(2,302,755)		(961,992)
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		13,601,067		13,515,761
27c. Operating Material and Supplies Used		3,137		20,759
27d. Other		(6,205,065)		(6,574,869)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	5,286,040	\$	6,164,135

29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	5,280,444	\$	6,163,048
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30. Net Cost of Operations	\$	(48,580)	\$	493,659
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Due to the AFWCF's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

A \$2.1 million adjustment was made to the Revaluation of Assets or Liabilities in order to align the note schedule with the amount reported on the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intraagency budgetary transactions are not eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts

- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities, Other, and Resources Used to Finance Items not Part of the Net Cost of Operations, Other, is primarily comprised of other gains and losses totaling \$138.0 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Components Requiring or Generating Resources in Future Period, Other, is comprised of the \$3.4 million increase in the AFWCF actuarial liability for workers' compensation benefits.

Components not Requiring or Generating Resources, Other, is primarily comprised of \$6.4 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

Note 22.	Disclosures Related to Incidental Custodial Collections
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The AFWCF collected \$40.2 thousand of incidental custodial revenues generated primarily from nonentity interest, penalties and administrative fees collected for out-of-service debts. These funds are not available for use by AFWCF. At the end of each fiscal year, the accounts are closed and the balances relinquished to the U.S. Treasury.

Note 23.	Funds From Dedicated Collections
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AFWCF has no Funds from Dedicated Collections.

Note 24.	Fiduciary Activities
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AFWCF has no Fiduciary Activities.

Note 25.	Other Disclosures
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AFWCF has no Other Disclosures.

Note 26.	Restatements
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AFWCF has no Restatements.

Working Capital Fund

Fiscal Year 2016

Required Supplementary Information

Department of Defense
Air Force Working Capital Fund
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015
(\$ in Thousands)

	<u>Operations, Readiness & Support</u>	<u>2016 Combined</u>	<u>2015 Combined</u>
Budgetary Resources			
Unobligated balance brought for, October 1	1,392,940	1,392,940	993,356
Unobligated balance brought forward, October 1, as adjusted	1,392,940	1,392,940	993,356
Recoveries of prior year unpaid obligations	6,788	6,788	32,654
Other changes in unobligated balance (+ or -)	(453,788)	(453,788)	(232,654)
Unobligated balance from prior year budget authority, net	945,940	945,940	793,356
Appropriations (discretionary and mandatory)	62,898	62,898	61,717
Contract Authority (discretionary and mandatory)	9,872,671	9,872,671	9,236,405
Spending Authority from offsetting collections (discretionary and mandatory)	6,654,155	6,654,155	6,661,199
Total Budgetary Resources	<u>\$ 17,535,664</u>	<u>17,535,664</u>	<u>16,752,677</u>
Status of Budgetary Resources:			
Obligations Incurred	16,110,818	16,110,818	15,359,737
Unobligated balance, end of year, Apportioned	1,424,846	1,424,846	1,392,940
Unexpired unobligated balance, end of year	1,424,846	1,424,846	
Total unobligated balance, end of year	<u>1,424,846</u>	<u>1,424,846</u>	<u>1,392,940</u>
Total Budgetary Resources	<u>\$ 17,535,664</u>	<u>17,535,664</u>	<u>16,752,677</u>
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, October 1 (gross)	6,711,809	6,711,809	6,605,018
Obligations incurred	16,110,818	16,110,818	15,359,737
Outlays (gross) (-)	(15,598,138)	(15,598,138)	(15,220,291)
Recoveries of prior year unpaid obligations (-)	(6,788)	(6,788)	(32,365)
Unpaid obligations, end of year	<u>\$ 7,217,701</u>	<u>7,217,701</u>	<u>6,711,809</u>
Uncollected Payments:			
Uncollected pymts, Fed sources, brought forward, Oct. 1 (-)	(4,057,054)	(4,057,054)	(4,148,694)
Change in uncollected pymts, Fed sources (+ or -)	(58,329)	(58,329)	91,639
Uncollected pymts, Fed sources, end of year (-)	<u>(4,115,383)</u>	<u>(4,115,383)</u>	<u>(4,057,054)</u>
Obligated balance, start of year (+ or -)	<u>2,654,755</u>	<u>2,654,755</u>	<u>2,456,324</u>
3200 Obligated balance, end of year (+ or -)	<u>\$ 3,102,318</u>	<u>3,102,318</u>	<u>2,654,755</u>
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	16,589,724	16,589,724	15,959,321
Actual offsetting collections (discretionary and mandatory) (-)	(15,989,254)	(15,989,254)	(15,960,493)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	<u>(58,329)</u>	<u>(58,329)</u>	<u>91,639</u>
Budget Authority, net (discretionary and mandatory)	<u>\$ 542,141</u>	<u>542,141</u>	<u>90,467</u>
Outlays, gross (discretionary and mandatory)	15,598,138	15,598,138	15,220,291
Actual offsetting collections (discretionary and mandatory) (-)	(15,989,254)	(15,989,254)	(15,960,493)
Outlays, net (discretionary and mandatory)	<u>(391,116)</u>	<u>(391,116)</u>	<u>(740,202)</u>
Agency Outlays, net (discretionary and mandatory)	<u>\$ (391,116)</u>	<u>(391,116)</u>	<u>(740,202)</u>

Working Capital Fund

Fiscal Year 2016

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

May 3, 2017

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

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund
FY 2016 and FY 2015 Basic Financial Statements
(Project No. D2016-D000FT-121.000, Report No. DODIG-2017-005)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Air Force Working Capital Fund consolidated balance sheet as of September 30, 2016, and 2015, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

***Management's Responsibility for the Annual
Financial Statements***

Air Force management is responsible for the annual financial statements. Management is responsible for: (1) preparing financial statements that conform with U.S. generally accepted accounting principles (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that Air Force's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor’s Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 15-02, “Audit Requirements for Federal Financial Statements,” August 4, 2015. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force Working Capital Fund FY 2016 and FY 2015 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Air Force Working Capital Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2016. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force Working Capital Fund FY 2016 and FY 2015 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management’s Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies

with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," October 7, 2016, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements."

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements, and compliance with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Air Force Working Capital Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. It was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements, and accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller). The Assistant Secretary of the Air Force (Financial Management and Comptroller) officials expressed their continuing commitment to address the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress, the OMB, the U.S. Government Accountability Office, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Air Force management, and the DoD Office of Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Air Force Working Capital Fund's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances, for the purposes of expressing our opinion on the basic financial statements, but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control.

Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal controls to include providing reasonable assurance that Air Force personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal controls over financial reporting, and we do not do so. However, the following material weaknesses and significant deficiencies continue to exist that could adversely affect the Air Force Working Capital Fund financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force Working Capital Fund financial statements will not be prevented, or detected and corrected, on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure proper

safeguards for assets to deter fraud, waste, and abuse and provide adequate support for performance-measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of legacy Air Force financial management and feeder systems did not allow them to collect and record financial information based on a full-accrual accounting basis at the transaction level. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Inventory. The Air Force's inventory management systems did not provide sufficient audit trails to confirm and value the in-transit inventory included as part of inventory held for sale on the Balance Sheet.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment data using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force could not verify these values in accordance with this statement. Air Force Working Capital Fund management asserted to us that the material weakness within General Property, Plant, and Equipment no longer exists. We requested detailed information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2016. Therefore, this material weakness continued to exist for FY 2016.

Subsidiary Ledgers and Special Journals. Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts.

Intragovernmental Eliminations. The Air Force could not accurately identify all intragovernmental transactions by customer. In addition, intragovernmental transactions are not always eliminated.

Accounting Entries. The Air Force acknowledged that it continued to make material journal vouchers for financial reporting that were not supported with sufficient documentation because of the deficiencies described above.

Spending Authority From Offsetting Collections Earned and Collected. The Air Force did not always reconcile Spending Authority, Earned and Collected as reported on the Statement of Budgetary Resources with transactional details. The Air Force is unable to sufficiently reconcile cash collections to supporting transactional details for wholesale and retail supply.

Previously Identified Significant Deficiencies

Management acknowledged that previously identified significant deficiencies continue to exist. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The following significant deficiencies continue to exist.

Accounts Receivable. The Air Force is unable to properly reconcile and support the validity of the Accounts Receivable financial statement line item due to reportable conditions for intragovernmental trading partner eliminations and proper accrual accountability and support.

Accounts Payable. The Air Force is unable to properly reconcile and support the validity of Accounts Payable due to reportable conditions identified in the areas of intragovernmental trading partner eliminations, accruals, and lack of supporting documentation.

These financial management control deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Air Force may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Air Force reported the material weaknesses described above in its FMFIA report, except for General Property, Plant, and Equipment.

Report on Compliance With Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Air Force Working Capital Fund complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), the Air Force and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2016, the Air Force Working Capital Fund reported no Antideficiency Act violations.

Compliance With FFMIA Requirements

The FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA. The Air Force Working Capital Fund should continue to work towards asserting full financial statement audit readiness by the DoD-wide FY 2017 deadline.

For FY 2016, the Air Force Working Capital Fund did not substantially comply with the FFMIA. The Air Force acknowledged to us that Air Force Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2016. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force Working Capital Fund complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.



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