

FISCAL YEAR 2024
AGENCY FINANCIAL REPORT



**DEPARTMENT
OF THE AIR FORCE**



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MESSAGE FROM THE SECRETARY OF THE AIR FORCE



8 November 2024

On behalf of our Airmen and Guardians proudly serving in our nation’s Air Force and Space Force, I am pleased to present the Fiscal Year 2024 Agency Financial Report. This annual examination of the Department of the Air Force’s finances serves as an open letter of transparency to the American people that we are effectively and efficiently using the resources entrusted to us to carry out critical air, space, and cyberspace operations.

A renewed sense of urgency was placed upon the Department of Defense with the passing of the Fiscal Year 2024 *National Defense Authorization Act*, in which Congress mandated that the entire Department of Defense achieve a clean audit opinion by the end of 2028. The Department of the Air Force is well positioned to respond to the spotlight on the audit, as demonstrated by our sustained placement amongst the top agencies within the congressional Report on the Rankings of the Auditability of the Financial Statements for three years running. Our efforts identifying risks and implementing solutions to address material weaknesses led to our General Fund being ranked number one among those Defense Components and Agencies with a disclaimed audit opinion in the prior year.

To continue leading the charge in Fiscal Year 2024, the Department of the Air Force targeted Secretary of Defense audit priority areas and high dollar value line items on our balance sheet. After becoming the first military service to fully close our Fund Balance with Treasury material weakness for our General Fund in 2023, we sought to achieve another key downgrade by remediating our Military Equipment material weakness. In working to remove this deficiency, we are providing further proof that the Department of the Air Force is accurately accounting for the assets. Our teams are persistently identifying and implementing solutions to address the remaining material weakness, with additional information on these residual weaknesses provided in the *Analysis of Systems, Controls, and Legal Compliance* section and within the *Reports of the Independent Public Accountant*.

The Department of the Air Force finds itself in a time of consequence – one marked by significant and dangerous shifts in the strategic environment. To meet these challenges, we must reoptimize for Great Power Competition with a focus on improving mission readiness, strengthening organizational alignment, and delivering combat capabilities with speed and agility. The annual audit plays an important role in our ability to achieve these goals by improving processes, strengthening transparency, enhancing system security, and fostering timely and effective resource decision-making.

The audit affirms what we know to be true, that change is not a choice. Developing the Air Force and Space Force of tomorrow demands we improve the processes and systems we use today. We must continue to reoptimize to produce the enterprise-wide solutions needed to adhere to our auditability flight plan and demonstrate to Congress and the American public that we are responsible stewards of the funds entrusted to us. *One Team, One Fight!*


Frank Kendall





MANAGEMENT'S DISCUSSION AND ANALYSIS

*An aircraft from the USAF F-35 Lightning II Demonstration Team at the Kentucky Air National Guard Base for the Thunder Over Louisville air show. The annual event featured more than 20 military and civilian aircraft.
—Photo: U.S. Air National Guard photo by Dale Greer*

OVERVIEW



USAF F-22A Raptors assigned to the 27th Expeditionary Fighter Squadron, along with Royal Australian Air Force (RAAF) F-35A Lightning IIs from No. 75 Squadron and a KC-30A Multi Role Tanker Transport aircraft from No. 33 Squadron, demonstrate a show of force by conducting an elephant walk at RAAF Base Tindal, AU. Exercise Pitch Black showcases allies and partners to synchronize efforts across a joint, combined force. —USAF photo by Staff Sgt. Spencer Tobler

The Department of the Air Force (DAF) was established under the *National Security Act of 1947*, becoming one of three military departments within the Department of Defense (DoD). The DAF is comprised of the United States (U.S.) Air Force (USAF) and the U.S. Space Force (USSF). The USAF was created in 1907 as a functional component of the U.S. Army and is the fifth branch of the U.S. Armed Forces. On December 20, 2019, as part of the Fiscal Year (FY) 2020 *National Defense Authorization Act*, the USSF became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. For FY 2024, the USSF is reported as part of the DAF General Fund (GF) financial statements.

As a steward of government resources, the DAF prepares its Agency Financial Report every FY to convey its financial position and performance results to taxpayers. It demonstrates commitment to the DAF's missions, accountability, and stewardship over the resources entrusted to the DAF by members of Congress, the President of the United States, and the public. The report includes the following sections:

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section contains a narrative composed of the overview, missions, and organization of the DAF; a high-level discussion of performance goals, objectives, and results over the past FY; an analysis of the financial

statements; an analysis of systems, controls, and legal compliance; and forward-looking information. Information for the DAF GF and the DAF Working Capital Fund (WCF) are included within this section.

FINANCIAL SECTION

This section includes a message from the Chief Financial Officer, principal financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources), associated notes, Required Supplementary Information, the Report of Independent Auditors, and the Management Response Letter. This information is presented separately for the DAF GF and the DAF WCF. The DAF GF captures core DAF administrative and operational tasks. Comparatively, the DAF WCF captures business-like acquisition and repair activities primarily funded through sales revenue, rather than Congressional appropriations.

OTHER INFORMATION SECTION

The final section is composed of the summary of the financial statement audit and management assurances, the results of the DAF's biennial review of user fees, climate-related financial risk, financial reporting-related legislation, and the glossary of acronyms.

MISSION

The DAF requires the right size and mix of agile capabilities to compete, deter, and win in a more competitive and dangerous international security environment than the U.S. has encountered in generations. As part of the joint force, the combined effort across military departments, the DAF's first responsibility is to integrate air and space capabilities across domains. To ensure continued success in the increasingly complex security environment, the USAF and the USSF have respectively outlined core missions and functions to meet the DAF's mission objectives.



An F-35A Lightning II assigned to the 388th Fighter Wing advances towards a KC-135 Stratotanker assigned to the 92nd Air Refueling Wing during an aerial refueling mission over Utah. Aerial refueling capabilities are essential for strategic and tactical operations, as well as humanitarian relief efforts in support of Air Mobility Command, U.S. Transportation Command, and DoD priorities. —USAF photo by Airman 1st Class Clare Werner

MISSION



USAF Chief of Staff Gen. David Allvin addresses attendees at an assumption of command ceremony held at the U.S. Air Force Academy, CO. Lt. Gen. Tony Bauernfeind became the 22nd Academy superintendent following the retirement of Lt. Gen. Richard M. Clark. —USAF photo by Dylan Smith

The USAF's mission statement is: *To fly, fight, and win...airpower anytime, anywhere.* To achieve that mission, the USAF has a vision: *With a Total Force of more than 689,000 personnel, Airmen work to support all aspects of airpower, which includes five core functions: air superiority; global strike; rapid global mobility; intelligence, surveillance, and reconnaissance; and command and control. Airpower also requires people and resources dedicated to unit readiness, base infrastructure, and talent management.*

The USAF consistently executes against five core functions:

AIR SUPERIORITY...*freedom from attack and the freedom to attack*

Air superiority ensures that advantages of the other USAF core missions, and the formidable capabilities of sister services, are broadly available to combatant commanders. It includes the ability to control the air, so that U.S. military forces are not concerned about being attacked, while ensuring that joint forces have the freedom to attack in the air, on the ground, and at sea. Air superiority has provided decades-long asymmetric advantages and is essential to the overall mission.

GLOBAL STRIKE...*any target, any time*

The USAF's nuclear and conventional precision strike forces can deter, credibly threaten, and effectively conduct global strikes by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases within the continental U.S. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in a single combat mission. Global strike missions include a wide range of crisis response and escalation-control options, such as providing close air support to troops at risk,

interdicting enemy forces, inserting special operations forces, or targeting an adversary's vital centers. Whether employed from forward bases or enabled by in-flight refueling, a global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other USAF aircraft.

RAPID GLOBAL MOBILITY...*delivery on demand*

American power can be projected quickly to anywhere on the face of the earth because of the USAF's ability to rapidly deploy war fighters and essential equipment at any time. Air mobility sustains operations ranging from major combat to humanitarian relief around the world. Beyond moving cargo and equipment, the USAF's rapid global mobility is linked to unprecedented survival rates because of the highly skilled aeromedical transport teams who swiftly evacuate wounded personnel back to safety. The combination of speed, range, flexibility, and responsiveness is what differentiates air mobility operations from other forms of transport and is critical to multi-modal operations contributing to a higher pace for Joint All-Domain Operations. Mobility forces also provide in-flight refueling, which is a unique USAF capability and the linchpin to joint power projection at intercontinental distances.

MISSION

INTELLIGENCE, SURVEILLANCE, AND RECONNAISSANCE...*eyes and ears on adversaries*

The USAF conducts intelligence, surveillance, and reconnaissance (ISR) missions to analyze, inform, and provide joint force commanders with the knowledge needed to achieve decision advantage. ISR helps maintain deterrence, contain crises, and achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, the USAF ISR gives policymakers the ability to minimize uncertainty about adversaries and their capabilities. It does so by strengthening deterrence, making adversaries act more cautiously, providing intelligence that gives commanders a decision-making advantage, and delivering real-time information on which joint, interagency, and coalition operations rely on to fight effectively and win. Globally-integrated ISR allows American forces to carry out functions that were previously performed under much greater danger and at a higher cost.

COMMAND AND CONTROL...*total flexibility*

Airmen employ the USAF's other four interdependent and enduring core missions through robust, adaptable, and survivable command and control systems. The USAF provides access to reliable communications and information networks so that the joint force can operate globally at an up-tempo level of intensity. The USAF command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequalled scale and at any time, using centralized command, distributed control, and decentralized execution. The capability to deliver air power is intimately dependent on the ability to operate effectively in cyberspace. This cyberspace arena is where all core missions are conducted and is critical to the USAF's command and control systems. Providing the right information to the right person at the right time is essential to the American war fighting advantage.



Top Photo: 90th Missile Security Operations Squadron convoy response force (CRF) members sit in a Joint Light Tactical Vehicle during Air Force Global Strike Command's second annual Advanced Recapture Recovery Operational Warfighter exercise at Camp Guernsey Joint Training Center's South Training Area, WY. Over three weeks, CRF teams from Minot Air Force Base (AFB), ND, Malmstrom AFB, MT, and F.E. Warren AFB, WY, demonstrated their ability to protect resources in the missile fields, working closely with base agencies and local law enforcement. —USAF photo by Staff Sgt. Michael A. Richmond

Bottom Photo: Airman 1st Class Aaron Barton, 60th Logistics Readiness Squadron petroleum oil and lubricants fuels distribution operator, prepares to fuel an aircraft on the flightline during exercise Bamboo Eagle 24-3 at Travis Air Force Base, CA. During Bamboo Eagle, Air Mobility Command assisted warfighters and helped them to exercise all-domain combat-power generation from disaggregated basing locations throughout the western U.S., along with distributed command and control, agile logistics, and tactical air-to-air refueling. —USAF photo by Kenneth Abbate

MISSION



USSF Chief of Space Operations Gen. Chance Saltzman, Royal Air Force (RAF) Chief of the Air Staff Air Chief Marshal Sir Rich Knighton, and USAF Chief of Staff Gen. David Allvin sign a Shared Vision Statement on combined air and space power in the 21st century at the RAF's Global Air and Space Chiefs' Conference in London. As the North Atlantic Treaty Organization (NATO) alliance celebrates its 75th anniversary, this shared vision exemplifies U.S. efforts to work with NATO allies and European partners to adapt and modernize its approach to challenges in an era of Great Power Competition. —Courtesy photo by RAF Cpl. Sarah Barsby

The USSF's mission statement is: *Secure our Nation's interests in, from, and to space.* The success of the USSF is dependent on three core functions:

SPACE SUPERIORITY...*defend against space and counterspace threats*

To protect satellites against attacks enabled by adversary satellites, the USSF needs to establish control of the domain. To do this, the USSF must be able to assure continued use of satellites and deny adversaries use of their satellites or space-enabled space capabilities to protect the nation. Missions that support space superiority include orbital warfare, electromagnetic warfare, and space battle management.

GLOBAL MISSION OPERATIONS...*integrate joint functions across all domains on a global scale*

Through space, the U.S. and its allies can see, communicate, and navigate. Global mission operations protect U.S. forces through early warning of incoming

missiles and other types of attacks. The USSF ensures global mission operations to allow the joint force to defend the air, land, and sea. Missions that support global mission operations include missile warning; satellite communications; and positioning, navigation, and timing.

ASSURED SPACE ACCESS...*deploy and sustain equipment in space*

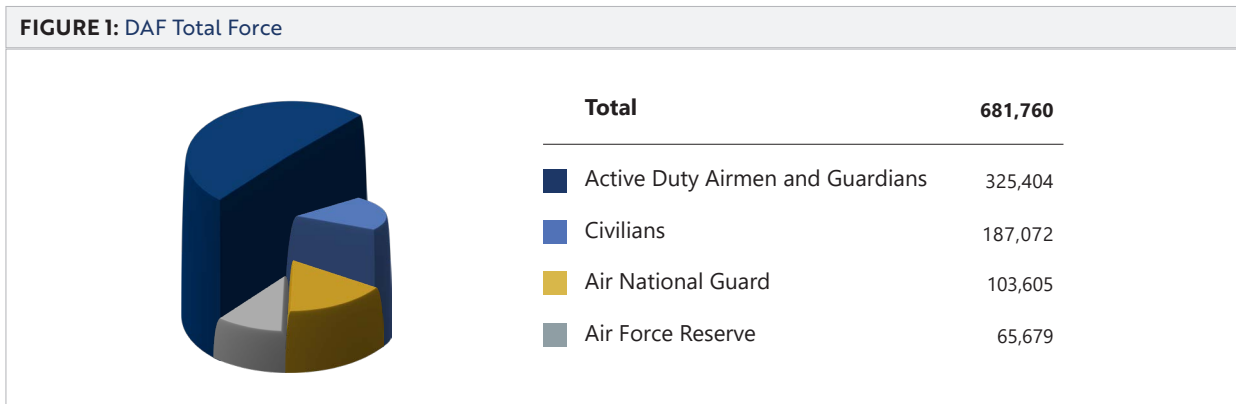
The USSF must be able to deploy and sustain equipment in space including rocket launches and controlling and steering satellites out of harm's way. Assured access to space means that the USSF will be able to continue launching and conducting space operations 24/7. Missions supporting space access include launch, range, and space domain awareness.

ORGANIZATIONAL STRUCTURE

As part of the Great Power Competition Reoptimization initiative, the DAF is implementing comprehensive plans to strategically reshape and refocus the USAF and USSF, focusing on four key areas: developing people, generating readiness, projecting power, and developing integrated capabilities. The details outlined in this section reflect the DAF's organizational structure as it stands at the close of the fiscal year.

The Total Force of the DAF consists of 681,760 active duty (including enlisted and officers) Airmen and Guardians, Air National Guard (ANG), Air Force Reserve, and Civilian personnel. This combined strength allows the Total Force to accomplish a variety of missions with varying requirements—all while operating as one DAF.

FIGURE 1: DAF Total Force



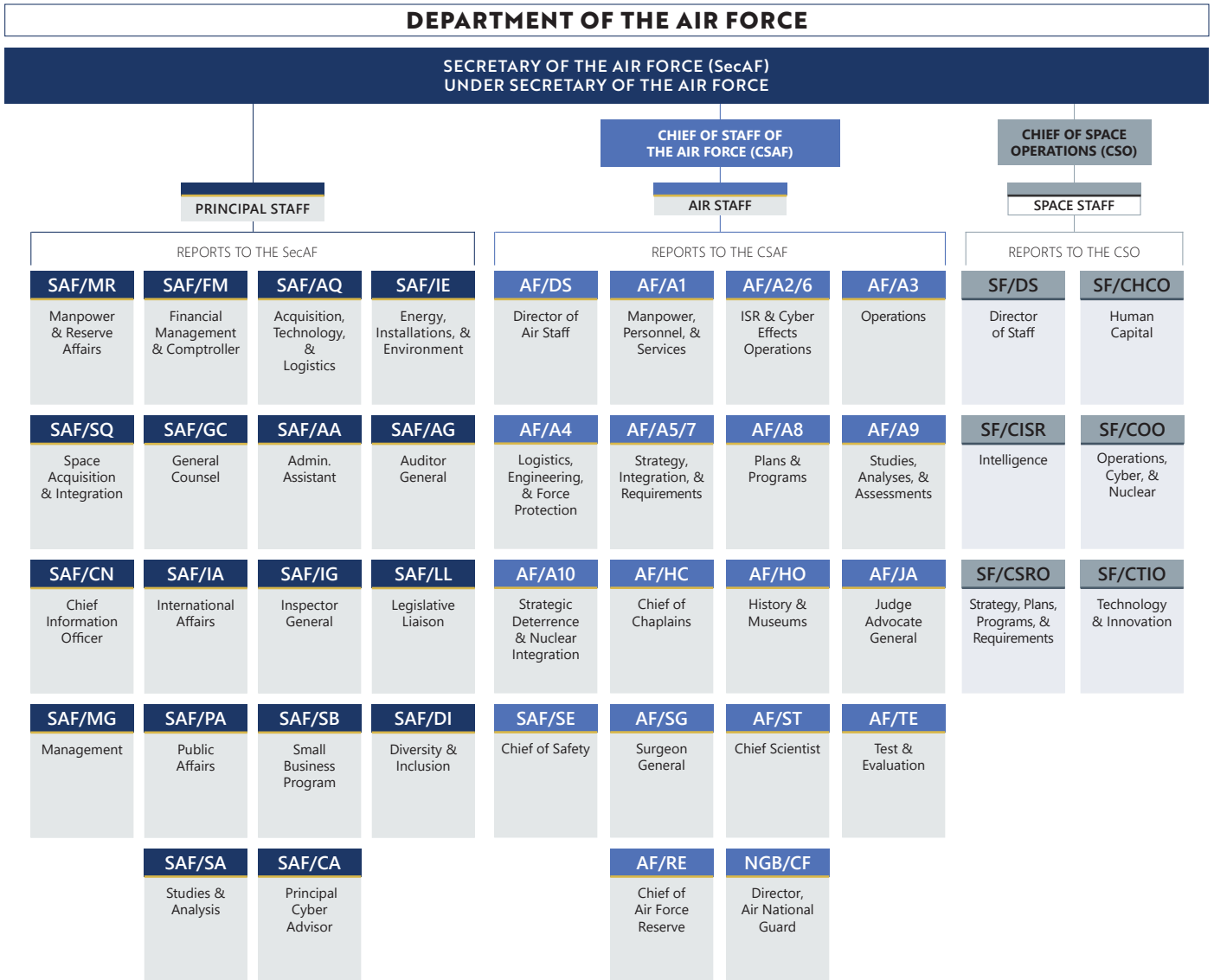
The majority of the Total Force consists of active-duty officers, enlisted Airmen, and Guardians. The reserve component is made up of the Air Force Reserve (see the [Air Force Reserve Command](#) in the United States Air Force Major Commands section below) and the ANG.

The ANG 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 U.S. The ANG's federal mission is to maintain well-trained and well-equipped units available for prompt mobilization during war and to provide assistance during national emergencies. During peacetime, the combat-ready units and support units are assigned to USAF Major Commands (MAJCOMs) to carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations. The ANG provides almost half of the DAF's tactical airlift support, combat communications functions, aeromedical evacuations, and aerial refueling. In addition, the ANG has total responsibility for air defense of the entire U.S. When the 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, the ANG provides protection of life; property; and preserves peace, order, and public safety. These missions are accomplished through emergency relief support during natural disasters, search and rescue operations, support to civil defense authorities, maintenance of vital public services, and counterdrug operations.

Civilian personnel are indispensable to the management, operation, and continuity of the DAF. Civilians serve in leadership roles throughout the DAF, around the globe, and across organizational levels. The DAF employs civilians in a full range of occupations and services providing stability with the ability to support multiple commanders over years of service. Another major component of the DAF is the Civil Air Patrol. Although not included in the Total Force count, the Civil Air Patrol is a Total Force partner and auxiliary of the DAF. The Civil Air Patrol is America's premier public service organization for carrying out emergency services and disaster relief missions nationwide. The Civil Air Patrol's vigilant citizen volunteers are there to search for and find lost individuals, provide comfort in times of disaster, and work to keep the homeland safe.

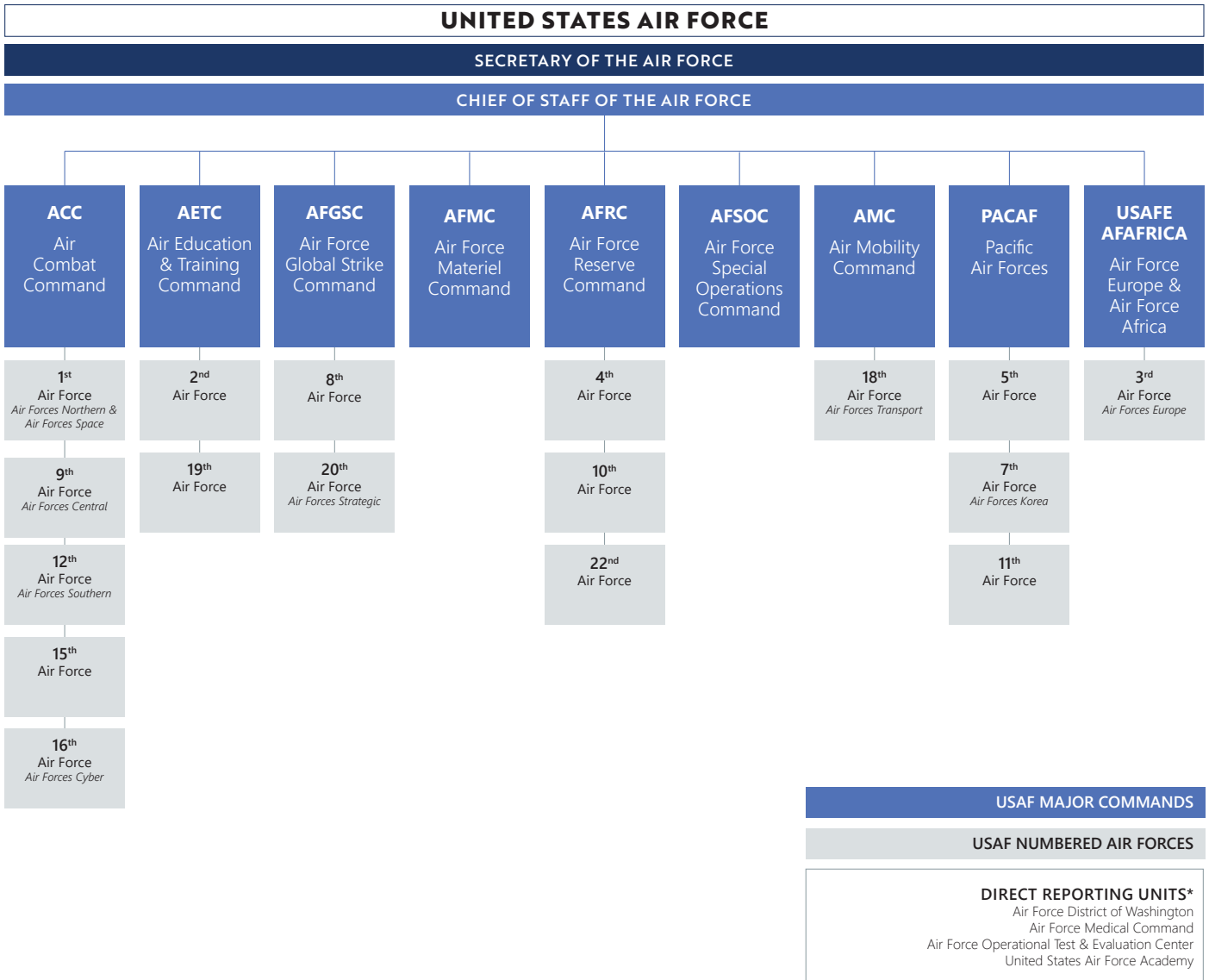
ORGANIZATIONAL STRUCTURE

FIGURE 2: Headquarters, Department of the Air Force



ORGANIZATIONAL STRUCTURE

FIGURE 3: USAF Command Structure

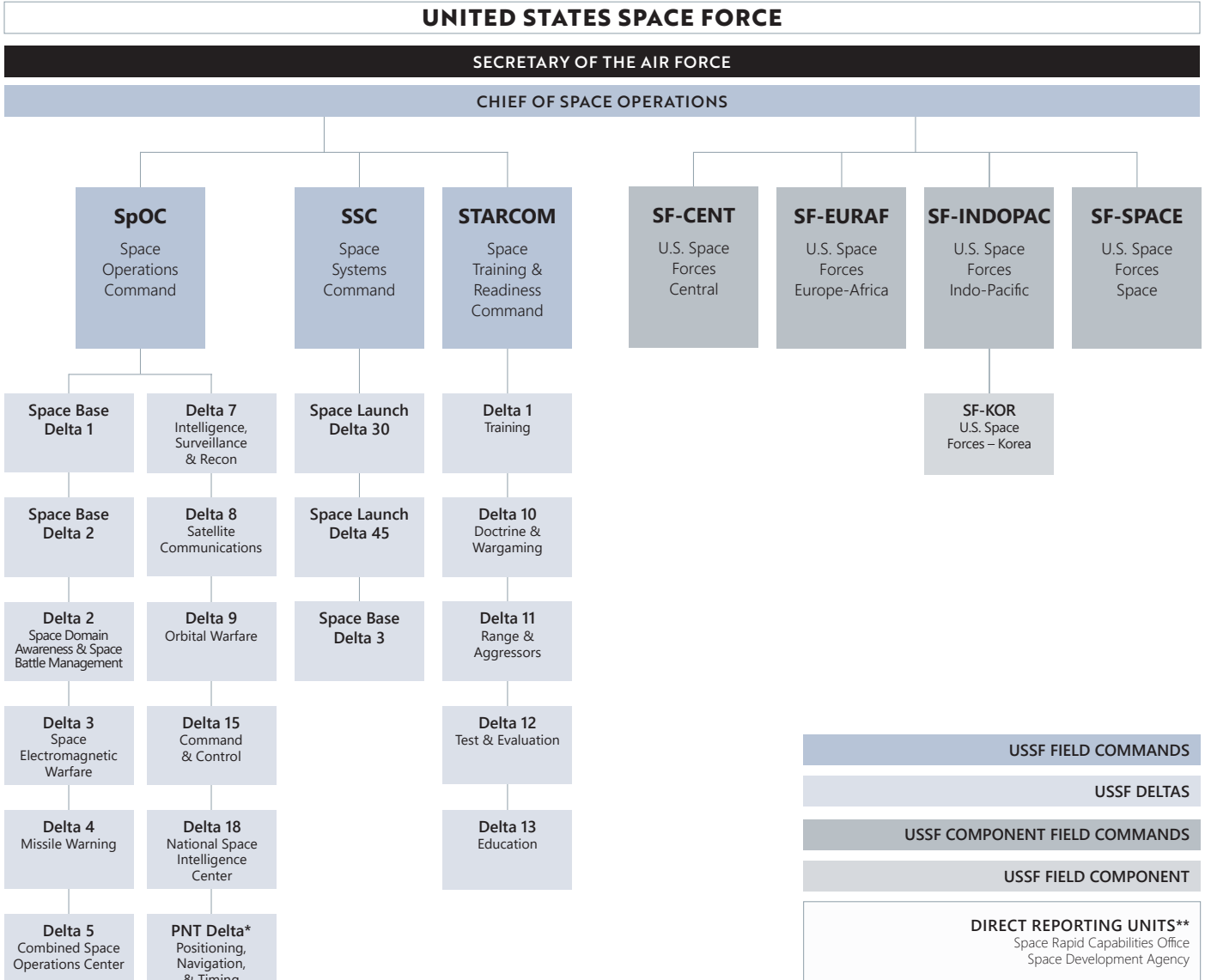


As of 30 September 2024

* For more information on Direct Reporting Units, see pages 21-22

ORGANIZATIONAL STRUCTURE

FIGURE 4: USSF Command Structure



As of 30 September 2024

* Provisional

** For more information on Direct Reporting Units, see pages 21-22

ORGANIZATIONAL STRUCTURE

THE DEPARTMENT OF THE AIR FORCE

The DAF consists of three entities: The Office of the Secretary of the Air Force, which includes the Secretary of the Air Force (the Secretary or SecAF) and the Secretary's principal staff; the USAF, which is headed by the Chief of Staff of the Air Force (CSAF); and the USSF, which is headed by the Chief of Space Operations (CSO). The Secretary, the CSAF, and the CSO direct the DAF's mission. The Secretary has overall responsibility for the DAF under the guidance and direction of the Secretary of Defense.

THE SECRETARY OF THE AIR FORCE

The Secretary is appointed from civilian life by the President of the United States with the advice and consent of the Senate and reports to the Secretary of Defense. To assure unit preparedness and overall effectiveness of the DAF, the Secretary is responsible for—and has the authority to conduct—all affairs of the DAF. This includes training, operations, administration, logistical support and maintenance, and welfare of personnel. The Secretary's responsibilities include research and development, and any other activity prescribed by the President of the United States or the Secretary of Defense. The Secretary exercises authority through civilian assistants, the CSAF, and the CSO, but retains immediate supervision of activities that involve vital relationships with Congress, the Secretary of Defense, other governmental officials, and the public.

THE CHIEF OF STAFF OF THE AIR FORCE

The CSAF is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The CSAF serves as a member of the Joint Chiefs of Staff (JCS) and the Armed Forces Policy Council. In the JCS capacity, the CSAF is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of Defense. The CSAF is also the principal adviser to the Secretary regarding the USAF. The CSAF presides over the Air Staff, transmits Air Staff plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The CSAF is responsible for the efficiency of the USAF, the preparation of its forces for military operations, and for activities assigned to the USAF by the Secretary of Defense. In addition, the CSAF supervises the administration of the USAF personnel assigned to unified organizations and specified commands and supervises support of these forces assigned by the DAF as directed by the Secretary of Defense.

THE CHIEF OF SPACE OPERATIONS

The CSO is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The CSO serves as a member of the JCS. In the JCS capacity, the CSO is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of Defense. The CSO is also a principal adviser to the Secretary regarding Space Operations. The CSO presides over the USSF, transmits the USSF's plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The CSO is responsible for the efficiency of the USSF, the preparation of its forces for military operations, and for activities assigned to the USSF by the organizations and specified commands and also supervises support of these forces assigned by the DAF as directed by the Secretary of Defense.

ORGANIZATIONAL STRUCTURE



The U.S. DoD and the Ministry of National Defense of the Republic of Niger announced the withdrawal of U.S. forces and assets from Air Base 201 in Agadez is complete. The Air Base 201 turnover is a significant milestone in the U.S. military withdrawal from Niger and was a byproduct of effective cooperation and communication between both nations. —USAF photo by 1st Lt. Natalie Stanley

FIELD ORGANIZATIONS

USAF MAJCOMs, USSF Field Commands (FLDCOMs), Direct Reporting Units (DRUs), Field Operating Agencies (FOAs), and their subordinate elements constitute the field organizations that carry out the DAF mission.

UNITED STATES AIR FORCE MAJOR COMMANDS

Currently, there are nine active MAJCOMs that are assigned specific responsibilities on a functional basis in the U.S., as well as on a geographic basis overseas. MAJCOMs accomplish USAF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. MAJCOM headquarters have a full range of functional staff, excluding functions that have been centralized elsewhere for USAF-wide execution.

Within MAJCOMs, the organizational structure has two schemes: unit and non-unit. Unit organizations are hierarchically organized by numbered air force, wing, group, squadron, and flight. Non-unit organizations are hierarchically organized by center, complex, directorate, division, branch, and section. The basic unit for generating and employing combat capability is the wing, which has always been the USAF's primary war-fighting instrument. Composite wings operate more than one kind of aircraft and may be configured as self-contained units designated for quick air intervention anywhere in the world. Other wings continue to operate a single aircraft type, ready to join air campaigns anywhere they are needed. Air-base and specialized-mission wings, such as training, intelligence, and test, also support the USAF mission. Within the wing, operations, logistics, and support groups are the cornerstones of the organization.

Finally, there are lead and component MAJCOMs. A lead MAJCOM consolidates responsibilities for a particular function in a single MAJCOM, supporting the entire USAF (as applicable). A component MAJCOM is the USAF component to a Unified Combatant Command. A MAJCOM can be both a lead MAJCOM and a component MAJCOM. As part of the Great Power Competition Reoptimization Initiative, the DAF will reorganize its USAF MAJCOMs into two distinct categories: Institutional Commands, responsible for organizing, training, and equipping Airmen; and Service Component Commands, responsible for preparing Airmen for warfighting in a combatant command's area of responsibility. As part of these efforts, the USAF elevated Air Force Southern (AFSOUTH) to a Service Component Command on September 11, 2024. AFSOUTH will report to the SecAF and will prepare, present, and generate airpower effects in support of U.S. Southern Command requirements. Additionally, on September 16, 2024, the USAF activated the provisional Integrated Capabilities Command. This Command will begin leading the USAF modernization prioritization efforts while working to reach final operational capability as a new USAF institutional command in FY 2025.

ORGANIZATIONAL STRUCTURE

Each of the existing active MAJCOMs, along with their respective mission, vision statements, and functional responsibilities, are described below.



AIR COMBAT COMMAND (ACC)

» **Mission:** Organizes, trains, and equips combat ready Airmen to control and exploit the air, cyberspace and the electromagnetic spectrum in support of the Joint Force

» **Vision:** People First – Mission Always

As the lead command for fighter; command and control; intelligence, surveillance, and reconnaissance (ISR); personnel recovery; persistent attack and reconnaissance; electromagnetic warfare; cyber warfare operations; and information warfare operations; ACC is responsible for providing combat air, space, and cyberspace power and the combat support that assures mission success to America's warfighting commands.

For more information about ACC, go to: www.acc.af.mil



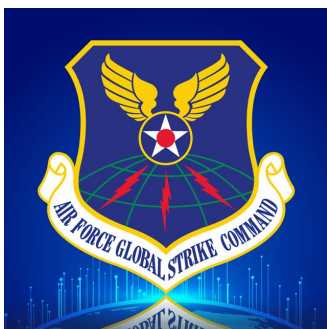
AIR EDUCATION AND TRAINING COMMAND (AETC)

» **Mission:** Find, recruit, train, and educate the Airmen the nation needs

» **Vision:** Develop Airmen with the competencies to win the high-end competition

AETC's mission begins with the recruitment of quality men and women with the right skills, at the right time, in the right numbers to sustain the combat capability of the USAF. AETC provides basic military training, initial and advanced technical training, flight training, and professional military and degree granting professional education.

For more information about AETC, go to: www.aetc.af.mil



AIR FORCE GLOBAL STRIKE COMMAND (AFGSC)

» **Mission:** Airmen always ready to provide long-range precision strike...anytime, anywhere!

» **Vision:** Innovative leaders providing safe, secure, and lethal combat-ready forces for nuclear and conventional global strike...today and tomorrow!

AFGSC provides nuclear and conventional global strikes, a key component of strategic deterrence. AFGSC is responsible for the nation's three missile wings; the USAF's entire bomber force, to include B-52, B-1, and B-2 wings; the Long-Range Strike Bomber program; the USAF Nuclear Command, Control, and Communications systems; and operational and maintenance support to organizations within the nuclear enterprise.

For more information about AFGSC, go to: www.afgsc.af.mil

ORGANIZATIONAL STRUCTURE



AIR FORCE MATERIEL COMMAND (AFMC)

- » **Mission:** Powering the world's greatest Air Force...We develop, deliver, support, and sustain war-winning capabilities
- » **Vision:** One AFMC – integrated, collaborative, innovative, trusted, and empowered...indispensable to our nation, disruptive to our adversaries

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 USAF weapon systems. From cradle to grave, AFMC provides the work force and infrastructure necessary to ensure the U.S. remains the world's most respected air force.

For more information about AFMC, go to: www.afmc.af.mil



AIR FORCE RESERVE COMMAND (AFRC)

- » **Mission:** Provide combat-ready forces to fly, fight, and win
- » **Vision:** Reserve Citizen Airmen – an agile, combat-ready force answering our nation's call...always there!

AFRC provides citizen airmen to defend the U.S. and protect its interests through aerospace power. Reservists support nuclear deterrence operations; air, space, and cyberspace superiority; command and control; global integrated ISR; global precision attacks; special operations; rapid global mobility; and personnel recovery. AFRC also performs space operations, aircraft flight testing, aerial port operations, civil engineering, security forces, military training, communications, mobility support, transportation, and service missions.

For more information about AFRC, go to: www.afrc.af.mil



AIR FORCE SPECIAL OPERATIONS COMMAND (AFSOC)

- » **Mission:** Enables the joint force by delivering Special Operations Forces (SOF) Mobility; Strike; Air-to-Ground capabilities; and Intelligence, Surveillance, and Reconnaissance across the spectrum of competition and conflict
- » **Vision:** Peerless and Professional Air Commandos. Always Ready to Answer our Nation's Call. Unconventional Airpower....Any Place, Any Time, Anywhere

AFSOC provides USAF SOF for worldwide deployment and assignment to regional unified commands. The command's SOF are comprised 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.

For more information about AFSOC, go to: www.afsoc.af.mil

ORGANIZATIONAL STRUCTURE



Air Mobility Command (AMC)

- » **Mission:** Rapid Global Mobility...Right Effects, Right Place, Right Time!

AMC is composed of a Total Force effort to execute rapid global mobility and enable global reach—the ability to respond anywhere in the world in a matter of hours. This is accomplished through AMC's four core mission areas: airlift, air refueling, air mobility support, and aeromedical evacuation.

For more information about AMC, go to: www.amc.af.mil



PACIFIC AIR FORCES (PACAF)

- » **Mission:** PACAF, in coordination with other components, allies, and partners, provides United States Indo Pacific Command with continuous unrivaled air, space, and cyberspace capabilities to ensure regional stability and security.
- » **Vision:** An agile, accurately postured, undeterred, and lethal force capable of dedicating peerless effects from cooperation to conflict

PACAF delivers rapid and precise air, space, and cyberspace capabilities to protect and defend the U.S., its territories, and its allies and partners. PACAF provides integrated air and missile warning and defense, promotes interoperability throughout the area of responsibility, maintains strategic access and freedom of movement across all domains, and is postured to respond across the full spectrum of military contingencies in order to restore regional security.

For more information about PACAF, go to: www.pacaf.af.mil



U.S. AIR FORCES IN EUROPE-AIR FORCES AFRICA (USAFE-AFAFRICA)

- » **Mission:** Defend vital U.S. interests, deter aggression, and deepen relationships with Allies and partners by projecting combat-ready airpower in Europe and Africa

- » **Vision:** Europe and Africa's airpower partner of choice – forward, agile, ready

USAFE-AFAFRICA is the air component for two DoD unified commands — United States European Command (USEUCOM) and United States Africa Command (USAFRICOM). USAFE-AFAFRICA executes the USAF's, USEUCOM's, and USAFRICOM's missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

For more information about USAFE-AFAFRICA, go to: www.usafe.af.mil



ORGANIZATIONAL STRUCTURE



Joint Tactical Ground Station (JTAGS) Guardians pose for a photo with Chief Master Sergeant of the Space Force John Bentivegna at an undisclosed location within the U.S. Central Command area of responsibility. The JTAGS career field and mission transferred from the Army to the Space Force in October 2023. —USAF photo Airman 1st Class Derrick Bole

UNITED STATES SPACE FORCE FIELD COMMANDS

Currently, there are three active FLDCOMs that are assigned specific responsibilities on a functional basis to accomplish USSF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. FLDCOM headquarters have a full range of functional staff, excluding functions that are centralized elsewhere for USSF-wide execution. The USSF has four Component FLDCOMs (C-FLDCOMs). U.S. Space Forces Indo-Pacific and U.S. Space Forces Central were activated in FY 2023 while U.S. Space Forces Space and U.S. Space Forces Europe-Africa were activated in FY 2024. These C-FLDCOMs present forces to DoD combatant commands and integrate USSF with the joint force. FLDCOMs are hierarchically organized by Space Deltas, Space Base Deltas, and Squadrons. Space Deltas focus on executing complex missions to empower rapid decision-making, Space Base Deltas focus on providing installation support functions to the Space Deltas, and Squadrons provide specific operational or support capabilities.

ORGANIZATIONAL STRUCTURE

Each of the FLDCOMs, along with their respective mission, vision statements, and functional responsibilities are described below.



SPACE OPERATIONS COMMAND (SPOC)

- » **Mission:** Protects America and our Allies in, from, and to space... now and into the future
- » **Vision:** America's Space Warfighters—Always Ready, Always Innovative, Always Above

SpOC's priorities fall under three main efforts: Preparing, Partnering, and Projecting. SpOC's first priority revolves around preparing combat ready, ISR led, cyber-secure space and combat support forces; and an empowered, diverse, healthy warfighting culture. As its second priority, SpOC is tasked with partnering across the U.S. Government, allies, and commercial partners; other USSF organizations; and U.S. Space Command as its USSF service component. Lastly under its third priority, SpOC is tasked with projecting combat power in, from, and to space; and projecting an innovative, digitized force.

For more information about SpOC, go to: www.spoc.spaceforce.mil



SPACE SYSTEMS COMMAND (SSC)

- » **Mission:** Develops, acquires, equips, and sustains lethal and resilient space capabilities against growing threats in a dynamic global environment
- » **Vision:** Leverage partnerships and innovation to deter and dominate any future contest in space

SSC is responsible for developing, acquiring, equipping, fielding, and sustaining lethal and resilient space capabilities for warfighters. The command is responsible for launch operations, on-orbit checkout, developmental testing, sustainment and maintenance of military satellite constellations and other DoD space systems, as well as the oversight and integration of USSF science and technology initiatives.

For more information about SSC, go to: www.ssc.spaceforce.mil



SPACE TRAINING AND READINESS COMMAND (STARCOM)

- » **Mission:** Prepare the USSF to prevail in competition and conflict through innovative education, training, doctrine, and test
- » **Vision:** Prepare every Guardian, Develop superior space capabilities, and Deliver warfighting solutions

STARCOM prepares combat ready USSF forces to fight and win in a contested, degraded, and operationally limited environment through the deliberate development, education, and training of space professionals; development of space warfighting doctrine, tactics, techniques, and procedures; and the test and evaluation of USSF capabilities.

For more information about STARCOM, go to: www.starcom.spaceforce.mil

ORGANIZATIONAL STRUCTURE

DEPARTMENT OF THE AIR FORCE DIRECT REPORTING UNITS AND FIELD OPERATING AGENCIES

DRUs have specialized and restricted missions and are directly subordinate to the Secretary and to the respective USAF/USSF Chief or his or her representative on the Air Staff or Space Staff. Currently, the USAF has four DRUs: the Air Force District of Washington, the Air Force Medical Command, the Air Force Operational Test and Evaluation Center, and the United States Air Force Academy, while the USSF has two DRUs: the Space Rapid Capabilities Office and the Space Development Agency.



AIR FORCE DISTRICT OF WASHINGTON (AFDW)

- » **Mission:** Contingency Response, Ceremonial Honors, and Operational Support ... Across the Nation's Capital and Worldwide
- » **Vision:** Renowned for Excellence, Prepared to Respond

AFDW serves as the USAF service component for coordination purposes to the Joint Task Force (JTF) National Capital Region (NCR) and the supporting command to JTF-NCR Medical. AFDW executes USAF operations and supports joint force and Inter-Agency operations in the NCR while providing superior support to combatant commanders and USAF elements worldwide. AFDW exercises Uniform Code Military Justice authority over, and provides manpower, personnel, legal, chaplain, finance, logistics, and safety support for designated USAF activities located within the NCR, selected FOAs, and selected USAF elements.

For more information about AFDW, go to: www.afdw.af.mil



AIR FORCE MEDICAL COMMAND (AFMEDCOM)

- » **Mission:** To ensure medically fit forces, provide expeditionary medics and improve the health of all we serve to meet our nation's needs.
- » **Vision:** Providing reliable access to safe, quality care by promoting positive patient experiences and outcomes. To achieve this goal, we are committed to providing Trusted Care...anytime, anywhere.

In June 2024, the SecAF and the CSAF authorized the formation of AFMEDCOM as a DRU. AFMEDCOM's goal is to provide operational medical capabilities through organizing, training, and equipping of medical forces to be organic components of our warfighting force elements. The organization ensures Airmen and Guardians, and their families, receive timely and quality medical care.

For more information about AFMEDCOM, please to go: www.airforcemedicine.af.mil



AIR FORCE OPERATIONAL TEST AND EVALUATION CENTER (AFOTEC)

- » **Mission:** Inform the Warfighter and Acquisition Through Operational Test
- » **Vision:** Leader of the Test Enterprise – Accelerating Change

AFOTEC evaluates the capability of systems to meet Warfighter needs by planning, executing, and reporting independent operational assessments, tests, and evaluations. From concept development to system fielding, AFOTEC evaluates a system's overall operational mission capability under realistic conditions. AFOTEC's mission requires lock-step efforts with its acquisition partners focused on shortening the combat capability delivery timeline.

For more information about AFOTEC, go to: www.afotec.af.mil

ORGANIZATIONAL STRUCTURE



UNITED STATES AIR FORCE ACADEMY (USAFA)

- » **Mission:** Educate, train and inspire men and women to become officers of character motivated to lead the U.S. Air Force and U.S. Space Force in service to our Nation.
- » **Vision:** Serve as the U.S. Air Force and U.S. Space Forces' premier institution for developing leaders of character.

The USAFA was established as a military service academy dedicated to training Airmen. With the establishment of the USSF, the USAFA is now the premier undergraduate commissioning source for both the USAF and the USSF. The USAFA provides a world-class education that combines athletics, character and leadership development, and military training to forge USAF and USSF officers who are ready to lead on day one. The USAFA utilizes a dynamic and diverse mix of civilian and military faculty to teach lessons with real-world applications that will prepare cadets to serve their country and succeed in their careers. As a public university and a military service academy, the USAFA is leading the way into an increasingly complex future, driving advancement and innovation in air, space, and cyberspace, among countless other fields.

For more information about USAFA, go to: www.usafa.af.mil and www.usafa.edu



SPACE RAPID CAPABILITIES OFFICE (SPACE RCO)

- » **Mission:** Deliver timely and operationally relevant space superiority and resilience capabilities to the warfighter

Space RCO was established via the FY 2018 *National Defense Authorization Act* (NDAA) with subsequent authorities defined in the FY 2019 NDAA. The Space RCO has a specialized, restricted, and unique mission; it was created in response to the National Defense Strategy calling for improvements to defense acquisition. Space RCO employs four key operating principles for going faster in space acquisition: short and narrow chain of command; early and consistent warfighter involvement; small Integrated and empowered program teams; and embedded functional support: human resources, contracting, finance, information technology, and security.

For more information about Space RCO, go to: www.spaceforce.mil



SPACE DEVELOPMENT AGENCY (SDA)

The SDA was established on March 12, 2019, and transferred to the USSF as a DRU on October 1, 2022. Its charge is to create and sustain lethal; resilient; threat-driven; and affordable military space capabilities that provide persistent, resilient, global, low-latency surveillance to deter or defeat adversaries. SDA will quickly deliver needed space-based capabilities to the joint warfighter to support terrestrial missions through development, fielding, and operation of the Proliferated Warfighter Space Architecture. SDA capitalizes on a unique business model that values speed and lowers costs by harnessing commercial development to achieve a proliferated architecture and enhance resilience.

For more information about SDA, go to: www.sda.mil

FOAs are a subdivision of the DAF and are directly subordinate to a DAF Headquarters Functional Manager. FOAs perform field activities beyond the scope of any MAJCOM, and their activities are unique and associated with the DAF-wide mission. Currently, the DAF has more than 20 active FOAs. For more information about each of the FOAs, go to: [FOAs](#)



REOPTIMIZING FOR GREAT POWER COMPETITION

FOR THE DEPARTMENT OF THE AIR FORCE TO DETER, AND, IF NECESSARY, PREVAIL IN ANY FUTURE CONFLICT, WE MUST **REOPTIMIZE FOR GREAT POWER COMPETITION.**

"We need these changes now," said Secretary of the Air Force Frank Kendall on one of the most extensive recalibration efforts in the Department's history. *"We are out of time to reoptimize our forces to meet the strategic challenges in a time of Great Power Competition."*

CORE AREAS

DEVELOP PEOPLE

The DAF is expanding and creating technical tracks for Airmen and Guardian and developing "Mission Ready Airmen" via training focused on a mix of skills needed for wartime operational mission readiness.

PROJECT POWER

The DAF will structure Air Force Operational Wings as mission ready "Units of Action," establish the relationship between Combat Wings and Base Command and formalize USSF Combat Squadrons as Units of Action.



GENERATE READINESS

The DAF is implementing large scale exercises and mission-focused training encompassing multiple operational plans, as well as implementing USSF readiness standards that reflect operations under contested conditions instead of a benign environment.

DEVELOP INTEGRATED CAPABILITIES

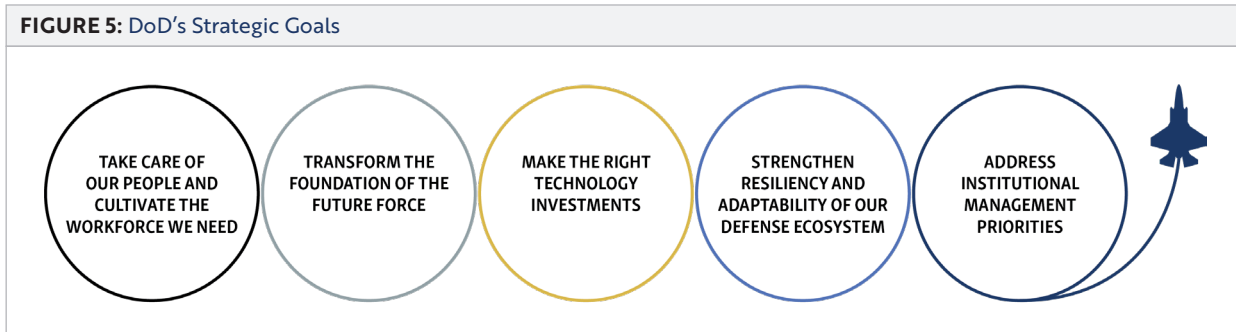
The DAF will create several offices including an Integrated Capabilities Office, the Office of Competitive Activities, and a Program Assessment and Evaluation Office, as well as establish an Integrated Capabilities Command.

For more information on the 24 key decisions highlighted in the Reoptimizing for Great Power Competition plan, please visit www.af.mil/Reoptimization-for-Great-Power-Competition or www.spaceforce.mil/reoptimization-for-Great-Power-Competition

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DAF possesses a unique set of competencies and capabilities to achieve the National Defense priorities of defending the homeland, deterring strategic attacks, deterring aggression, and building a resilient joint force and defense ecosystem. However, the DAF is increasingly facing a more complex and contested global security environment marked by increased strategic competition, rapid technological changes and innovations, and new concepts of warfare. To outpace these challenges and to achieve its priorities, the DAF made concentrated efforts to support the five strategic priorities contained in the DoD Strategic Management Plan:

FIGURE 5: DoD's Strategic Goals



National Defense Strategy priorities will be advanced through integrated deterrence, campaigning, and actions that build enduring advantages. Integrated deterrence entails applying a coordinated, multifaceted approach of combining the DAF's strengths to work seamlessly across warfighting domains, all instruments of national power, and through its unmatched partnership network to deter attacks before they happen. Campaigning strengthens deterrence by advancing well-defined strategies and enables the DAF to gain advantages by synchronizing efforts with broader Departmental efforts to undermine competitors and further develop warfighting capabilities alongside the DAF's allies and partners. Building enduring advantages involves modernizing and building resilient systems, innovating and accelerating change to attain cutting-edge technology; and cultivating talent by recruiting, training, and investing in Airmen and Guardians as they are the cornerstone of the DAF's success. Together these methods will enable the DAF to develop, design, and manage a force that will be able to meet the challenges presented by today's complex security environment.



BREAKING BARRIERS

On September 18, 2024, the DAF's Hispanic Empowerment and Advancement Team (HEAT) hosted a conference in honor of National Hispanic Heritage Month. Dedicated to advancing Hispanic service members and civilians, HEAT organized this conference as part of its broader efforts to promote inclusion and empowerment within the DAF.

This full-day event featured keynote addresses, special interest panels with enlisted leaders, and fireside chats. It also brought together Hispanic community leaders and advocates to discuss the unique challenges and opportunities faced by Hispanic service members and civilians.

"This conference is an important opportunity for us to come together and celebrate the rich cultural heritage of our Hispanic service members and civilians. Each of us plays a role in identifying and removing barriers to ensure we can recruit, retain and develop Airmen and Guardians from all backgrounds, races and ethnicities, ultimately maintaining a ready and resilient force to defend our nation." said Marianne Malizia, Deputy Assistant Secretary for the Office of Force Resilience and the Chief Diversity Officer for the DAF.

Attendees gather for a group photo on stage during the DAF HEAT's conference at the Inter-American Air Forces Academy auditorium, Joint Base San Antonio-Lackland, TX. —USAF photo by Marcus Robins

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITIES AND RELATED ACCOMPLISHMENTS

STRATEGIC PRIORITY #1: Take Care of Our People and Cultivate the Workforce We Need

Dedicated and selfless Airmen and Guardians enable the DAF to meet the challenges imposed by the ever-growing complex strategic environment. They enhance the peaceful instruments of diplomacy, sustain integrated deterrence, and ensure credible consequences for aggressions from our enemies. Dedicated Airmen and Guardians are the DAF's most precious asset, which makes it imperative to create a future force with the capabilities and competencies to win and thrive. The DAF understands that its most sacred duty is to provide Airmen and Guardians with the tools they need to be successful. As such, the DAF is committed to maximizing opportunities for all its members to serve to their fullest potential. As the DAF's mission capabilities rests with its people, the DAF's future hinges on recruiting, retaining, and training a diverse and talented force. In addition, the DAF has focused on quality-of-life impacts for its Airmen, investing in childcare, mental health, and other well-being initiatives to provide all the resources required to thrive. By focusing on these aspects, the DAF will ensure that its future force is well equipped to meet and keep pace with the threats facing the DAF in an increasingly competitive environment. By enhancing readiness through a diverse and inclusive force, it will foster innovation and collaboration and enable the force to best represent the population it is dedicated to protecting.

DAF ACCOMPLISHMENTS IN SUPPORT OF STRATEGIC PRIORITY #1:

- » The Air Force Medical Command was established as a direct reporting unit of USAF to better serve the medical readiness of Airmen and Guardians. The command will improve the DAF's ability to generate medically ready forces, provide installation support, and optimize health care delivery.
- » The DAF led its inaugural Strategic Diversity, Equity, and Inclusion Certification training to increase knowledge of the strategic importance of a diverse workforce as well as promote inclusive leadership. The training emphasized the agility and complex decision-making needed to meet the challenges in a contested global environment.
- » The DAF implemented a new incentive pay for Airmen and Guardians assigned to qualifying bases with extremely frigid conditions, to ease the financial burden of purchasing cold weather essentials. This incentive directly supports the implementation of the *National Defense Authorization Act*, and will guarantee that Airmen, Guardians, and their families have the resources needed to safely live and work in an extreme cold-weather environment.
- » During the FY 2024 Mental Health Flight Leadership Conference, the DAF unveiled its new "Mental Health Overview" which includes resources for Airmen and Guardians seeking mental health support. The overview's purpose is to destigmatize the complexities of mental health, shed light on the processes for seeking both clinical and non-clinical mental health assistance, and provide recommendations on how to best use care resources.
- » The DAF updated its allowance policy so that Airmen and Guardians with dependents executing a permanent change of station to a professional military education or training location are now authorized to collect per diem in the amount of the basic allowance for housing (BAH) without-dependent rate, while also continuing to receive BAH at the dependent rate for their prior duty location where their family remains. This new allowance gives service members and their families additional resources to weather times away from their families without the added stress of financial uncertainties.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITY #2: Transform the Foundation of the Future Force

The DAF recognizes the rapidly evolving and volatile global environment and the complex challenges it presents. Sustained strategic competition demands increased readiness and effectiveness from all aspects of the DAF. The current system is unable to address the DAF's most critical challenges. In order to keep up with the constantly changing world, the DAF is transitioning to processes and systems that reward rapid experimentation, acquisition, and fielding. The DAF is incorporating emerging technologies and concepts that will help solve key operating challenges and is accelerating transformative efforts in all areas of mission support, integrated deterrence, and readiness. This will support the delivery of agile and effective support to the warfighter as well as continued investments in interoperability capabilities and in connecting joint, allied, and partner teams. These efforts will ensure the DAF can sustain and strengthen deterrence and investments that build enduring advantages.

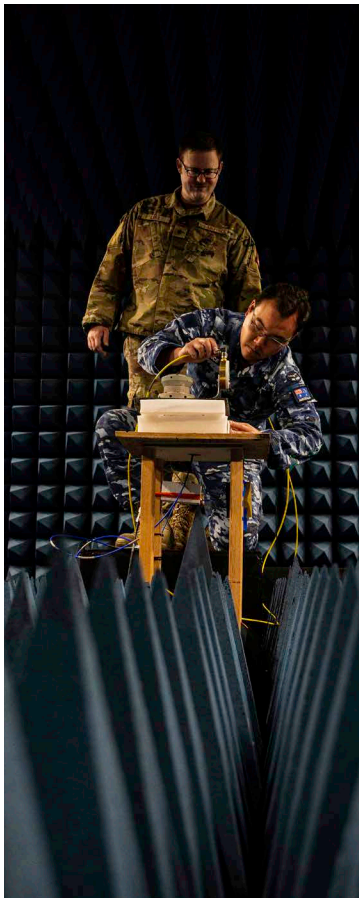
DAF ACCOMPLISHMENTS IN SUPPORT OF STRATEGIC PRIORITY #2:

- » The DAF unveiled a set of sweeping decisions designed to reshape, refocus, and reoptimize the DAF to maintain preeminence, deter adversaries, and prevail in an era of Great Power Competition. These decisions will address four core areas: Developing People, Generating Readiness, Projecting Power, and Developing Capabilities. As part of these efforts, the USAF activated the provisional Integrated Capabilities Command, which will lead USAF's force modernization efforts across key investments. Additionally, the USAF elevated Air Force Southern to a Service Component Command, enabling it to better prepare, present, and generate airpower.
- » The DAF activated the first Air Task Force (ATF) units under the new DAF deployment model. ATFs will allow the DAF to provide a definable unit of action and establish a sustainable pace for posturing forces, thereby fundamentally changing how deployed units prepare, execute, and win together.
- » The USSF released its Commercial Space Strategy, which details how the USSF is retooling processes and cultivating commercial partnerships to increase U.S. competitive advantage. The strategy signals a fundamental mindset shift for the USSF and how it supports the joint force; the service will institutionalize and operationalize commercial capabilities by integrating space goods, services, and activities. This new strategy will focus on four lines of effort: Collaborative Transparency, Operational and Technical Integration, Risk Management, and Securing the Future.
- » The DAF's Air University hosted the "Harnessing Artificial Intelligence (AI) for Information Advantage" Symposium, which focused on the potential benefits of AI and how it will shape the information advantage in future conflicts. The symposium is one of the steps that the DAF is taking to understand the critical role that AI will play in identifying threats, developing future AI-capable warfighters, and reoptimizing current strategies by incorporating AI in an era of Great Power Competition.
- » The DAF activated the Warrant Officer Training Corps to address critical operational needs while maintaining highly tactical skills and leveraging the deep expertise and technical capabilities of warrant officers. The warrant officers will serve as technical integrators and credible advisors, leading teams in the joint force who execute critical missions across our national security enterprise.
- » The DAF made significant revisions to Air Force Doctrine 3-36, *Air Mobility Operations*, to reflect the evolving strategic environment and the DAF's renewed commitment to maneuverability, sustainability, and lethality. This updated doctrine aligns with the realities of Great Power Competitions and is designed to prepare the DAF for future conflicts.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITY #3: Make the Right Technology Investments

The DAF recognizes that the key to its military advantage is maintaining its technological edge. Mission success is enabled by the DAF's ability to seek innovative approaches and integrate new capabilities and technology into all aspects of operations. To outpace its strategic competition in highly contested environments, the DAF continues to champion research, science, technology, engineering, and innovation. The DAF will harness that innovation by focusing development resources on unique capabilities and adopting the best commercial dual use technologies to deliver critical capabilities to the warfighter.



Personnel from the Australian Joint Precision Navigation and Timing Directorate, Joint Capabilities Group, and Joint Navigation Warfare Center (JNWC) align Global Positioning System (GPS) test equipment in the JNWC anechoic chamber at Kirtland Air Force Base, NM, in preparation for a GPS resilience test. This combined effort not only enhances GPS navigation resilience but also exemplifies the power of international cooperation in addressing security threats. As the world faces evolving challenges, partnerships like these remain essential for maintaining an edge in contested environments. —USAF photo by SrA Spencer Kanar

DAF ACCOMPLISHMENTS IN SUPPORT OF STRATEGIC PRIORITY #3:

- » The DAF created a new Digital Acceleration Task Force to transform efforts and deliver digital materiel management (DMM) solutions, with the end goal of enabling integrated capability delivery faster across the enterprise ensuring that the U.S. keeps pace with its adversaries. Effective implementation of DMM will enable the DAF to capitalize on opportunities in areas such as enterprise resourcing; solution scaling across programs; improved, more secure information technology infrastructure; and cross-domain solutions.
- » The DAF started modernizing the Air Force Reserve Command's C-130H Hercules Fleet, significantly upgrading the aircraft's avionics and navigation systems. These upgrades will help the fleet stay modern in this age of digitalization and aid in the DAF's efforts to meet the National Defense Strategy priorities.
- » The DAF's Project Arc team integrated with the 435th Air Ground Operations Wing at Ramstein Air Force Base and made advancements to the Global Command and Control System, a system that is designed to provide armed forces with a near real-time picture of air and ground obstacles that might affect ground troops in the battlespace.
- » The DAF successfully flew the XQ-67A, an Off-Board Sensing Station, uncrewed air vehicle. The XQ-67A is paving the way for other aircraft to be rapidly designed, built, and tested on a standard frame. This approach will help save time and money by leveraging standard substructures and subsystems, thereby responding to the challenge of Great Power Competition by delivering affordable and advanced capabilities to the warfighter.
- » The DAF welcomed the first three F-16 Fighting Falcons ready to take part in the Viper Experimentation and Next-gen Operations Model – Autonomy Flying Testbed (VENOM-AFT) program. VENOM-AFT is designed and funded to accelerate testing of autonomy software on both crewed and uncrewed aircraft and holds the potential to redefine air combat paradigms by fostering novel autonomous functions for current and future crewed and uncrewed platforms.
- » The DAF launched Non-classified Internet Protocol Generative Pre-training Transformer, a tool that allows Airmen and Guardians to leverage Generative AI (GenAI) to complete various tasks within a secure computing environment. This tool will enable the DAF to understand GenAI's practical applications and challenges, ensuring that future implementation is effective and efficient while also leveraging any insights to inform future policy, acquisition, and investment decisions.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITY #4: Strengthen Resiliency and Adaptability of Our Defense Ecosystem

The DAF is increasingly confronted with multifaceted challenges, whether it be from foreign adversaries or natural phenomena resulting from climate change. As a result, the DAF must focus its efforts on strengthening resiliency and adapting and fortifying its defense ecosystem. Fortification will depend on the DAF's ability to maximize readiness; combat climate, energy, and environmental challenges; enhance its cybersecurity environment; increase the resiliency of its Command, Control, and Communications (C3) capabilities; and engage in development, research, testing, and evaluation with its allies and partners. To maintain its operational effectiveness in contested environments, the DAF must be able to produce and sustain a comprehensive range of capabilities needed to give the U.S. and its allies a competitive advantage. Environmental challenges are currently one of the biggest and most unprecedented threats facing the nation. The DAF must continue to address these adverse challenges and mitigate the impact of climate change to secure the infrastructure critical to national security. As almost every facet of civilian and military life is dependent on the cyberspace domain, it's critical that the DAF is prepared to defend and secure its systems against adversaries operating in a contested cyberspace. By ensuring and defending its C3 capabilities, the DAF's commanders and decision makers will be able to rapidly evaluate, select, and execute effective courses of action to accomplish the mission. Lastly, by reinforcing partnerships with its allies, the DAF will be able to develop superior technology that will further deter aggression and contain threats, thereby increasing readiness, domain awareness, and decision-making.

DAF ACCOMPLISHMENTS IN SUPPORT OF STRATEGIC PRIORITY #4:

- » The DAF began flight testing the B-21 Raider, a long-range, highly survivable, penetrating strike stealth bomber that, once placed in service, will play a key role supporting national security objectives and assuring U.S. allies and partners across the globe. The B-21 weapon system is designed with an open systems architecture, enabling rapid insertion of mature technologies and allowing the aircraft to remain effective as threats evolve over time.
- » The USSF launched the provisional Electromagnetic Warfare and Positioning, Navigation, and Timing Integrated Mission Deltas (IMD) earlier this year. IMDs are part of a new USSF construct that orients all aspects of mission area readiness, from personnel to sustainment, within a single organization to foster unity while simultaneously streamlining level of efforts for capability development.
- » The DAF implemented the Language Enabled Airman Program, a program aimed at strengthening international relationships to build air and space capabilities. Over 3,400 multi-capable, language-enabled Airmen who have proficiencies in language, regional expertise, and culture across 97 strategic languages are ready to deploy, at a moment's notice, with the language, culture, and technical skills needed in diverse environments to strengthen strategic connections with partners and allies and enable agile combat employment.
- » The DAF participated in multiple exercises alongside its fellow North Atlantic Treaty Organization (NATO) allies. The DAF hosted the Ramstein 1v1 fighter exercise, which involved 37 aircraft from nine different NATO countries and pitted countries together in simulated air-to-air engagements to sharpen skills, tactics, and techniques to identify and correct any discrepancies. In NATO's Astral Knight exercise, the DAF demonstrated joint force interoperability and strategic readiness between U.S. forces and NATO allies. The exercise emphasized the DAF's commitment to agile combat employment strategies, integrating advanced sensor technology, and refining multinational tactical operations designed to enhance movement, maneuverability, and security across NATO territories.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

- » The DAF reactivated the 388th and 563rd Electronic Warfare Squadrons (EWS). The 388th EWS will focus on weapons and tactics; intelligence; and test management, education, and training. It will also evaluate and assess adversaries' capabilities, identify their vulnerabilities, and inform capability prioritization and development at the wing. The 563rd EWS will focus on designing, developing, and employing software electronic warfare capabilities to warfighters.
- » The DAF showcased its preparedness for complex, large-scale military operations by performing Exercise Bamboo Eagle. The exercise challenged the DAF to operate in a contested, dynamic environment against high-end threats on short notice. Training in a combat-representative environment helps the DAF's Airmen and the joint force develop the right operational concepts, capabilities, and plans to bolster deterrence and maintain our competitive advantage against any potential adversary.

PUTTING THE AI IN AIR FORCE

On May 2, 2024, Secretary of the Air Force Frank Kendall experienced firsthand the awesome power and potential that AI will provide to the DAF. Flying front row on the X-62A Variable In-flight Simulation Test Aircraft (VISTA), Secretary Kendall participated in an aerial dogfight unlike any other as his aircraft used machine learning and specialized software to autonomously maneuver into position to engage with a manned F-16. During the hour-long flight, the X-62A VISTA conducted several high-intensity maneuvers at more than 550 miles an hour, all without Secretary Kendall or the safety pilot in the backseat, touching the controls.

"The potential for autonomous air-to-air combat has been imaginable for decades, but the reality has remained a distant dream up until now," said Secretary Kendall. *"This is a transformational moment, all made possible by breakthrough accomplishments of the [Air Combat Evolution] team."*

Embracing emerging technologies and AI has been a constant theme of Secretary Kendall in his efforts to lead the DAF in this era of Great Power Competition. He has pointed to both the financial and operational threats of not forging ahead with AI, citing the costs associated with the F-35 Joint Strike Fighter program and manned fighters' vulnerabilities to evolving electronic warfare as risks that must be navigated.

"AI is really taking the most capable technology you have, putting it together, and using it on problems that previously had to be solved through human decision-making," said Secretary Kendall. *"It's a security risk not to have it. At this point, we have to have it."*



Secretary of the Air Force Frank Kendall flies in an X-62A VISTA in the skies above Edwards Air Force Base, CA. The X-62A is currently in the midst of an upgrade program that will fully replace the VISTA Simulation System. The upgrade program will also add a new system called the System for Autonomous Control of Simulation to support autonomy testing for the Air Force Research Laboratory's Skyborg program. —USAF photo by Richard Gonzales

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PRIORITY #5: Address Institutional Management Priorities

The DAF plans to reform business operations to generate lasting institutionalized resources to support its mission. This transformation aims to modernize outdated business practices, prevent the depletion of limited resources, and enhance the DAF's capacity to foresee and adapt to emerging threats. The DAF is placing a heightened focus on performance and accountability across its management approach and promoting a culture of innovation, agility, and accountability. The DAF recognizes that innovative business reform will deliver greater organizational flexibility and allow a reinvestment in greater readiness to support the warfighting capability. Continued diligence in the audit remediation efforts will foster an environment that enables quicker mission support through proficient analytics and improved transparency. By focusing on standardization and simplification, the DAF will enable greater productivity, trustworthiness, security, and innovation in its management practice and increase the effectiveness and efficiency of decision making.

DAF ACCOMPLISHMENTS IN SUPPORT OF STRATEGIC PRIORITY #5:

- » The USSF published its "Data and Artificial Intelligence FY 2024 Strategic Action Plan," which provides a framework to reach data centricity capable of conducting operations in contested environments. The plan identifies initial actions for organizations that are essential for establishing processes, building capacity, and aligning existing efforts to better leverage data as a strategic asset among four lines of effort: 1) Mature, Enterprise-Wide Data and AI Governance; 2) Advance a Data and AI-Driven Culture; 3) Reoptimize Data, Advance Analytics, and AI Technologies; and 4) Strengthen Government, Academic, Industry, and International Partnerships.
- » The Air Force Installation and Mission Support Center's (AFIMSC) Innovation and Improvement Division is transforming the way the DAF does business by integrating cutting-edge data-preparation and data-visualization tools across the DAF. The AFIMSC is providing decision makers the tools (such as cloud-based collaboration and data analytical tools) needed to assess performance and aid in decision making across multiple installation and support areas as well as the training to help units effectively implement and use the tools.
- » The DAF hosted its annual "Air Force Installation and Mission Support Center Financial Services Officer Worldwide Conference," which allowed financial management (FM) professionals to share best practices, cultivate new ideas, and foster innovative solutions that can be standardized and implemented across the FM enterprise. The conference allows professionals to prepare for the Great Power Competition by seeking innovative approaches to FM operations, optimizing, and integrating them into the total force vision, thereby enabling Airmen and Guardians to focus on missions they need to perform to win.
- » The DAF initiated Identity, Credential, and Access Management (ICAM) system onboarding for financially relevant systems to implement enhanced access management capabilities, ensuring data is only accessible by those with a need to know. Increased ICAM systems will help the DAF increase its auditability and achieve its audit remediation while increasing public cyber security and the private information of the DAF.
- » The DAF is developing a Machine Learning Model that will identify source systems in the legacy general ledger environment. This effort will accelerate the DAF's ability to demonstrate Universe of Transactions completeness by tagging over one million transactions that would have required extensive manual research.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

GOVERNANCE AND ACCOUNTABILITY

The DAF is dedicated to continuously monitoring performance and maintaining accountability for its operations and related activities through its Risk Management and Internal Control Governance Bodies. These governance bodies are comprised of senior-level executives and include the Risk Management Council (RMC), the Senior Management Council (SMC), the Executive Steering Committee (ESC) which serves as the Department's Senior Assessment Team (SAT), and the Fraud Risk Oversight Committee (FROC). The RMC is responsible for the establishment of the Agency's enterprise risk profile, continuous assessment of risk, and coordinating necessary risk responses. The SMC oversees and monitors the effectiveness of internal controls over operations. The ESC/SAT oversees and monitors the effectiveness of internal controls for financial reporting and financial systems. The FROC oversees and monitors the effectiveness of internal controls to manage the risk of fraud.



A Falcon 9 rocket carrying Bandwagon-1 satellites from Launch Complex 39A at Kennedy Space Station, FL. The Falcon 9 Bandwagon-1 launch marks the 321st flight of a Falcon 9 rocket. —USSF photo by Joshua Conti



A KC-135 Stratotanker from the 127th Wing, Michigan Air National Guard, rests on the flight line at Marquette Sawyer International Airport in Marquette, MI. Four tankers from the wing's 127th Air Refueling Group are currently based at the northern Michigan airport while home station Selfridge Air National Guard Base resurfaces its runway.
—Photo by Munnaf Joarder

ANALYSIS OF FINANCIAL STATEMENTS

The accompanying financial statements and related note disclosures represent the DAF's enduring commitment to fiscal accountability and transparency. The DAF made progress toward improving the quality and timeliness of financial reporting through business transformation initiatives, financial systems enhancements, and expansion of the internal control program. However, due to continued limitations of financial and non-financial systems and management processes, the DAF is unable to implement all elements of Federal Generally Accepted Accounting Principles (GAAP) and Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. These limitations prevented the Independent Public Accountant from issuing an opinion on the FY 2024 DAF financial statements.

The DAF is organized into two reporting entities: the DAF GF (including USSF) and the DAF WCF. Each reporting entity has a separate set of financial statements and accompanying note disclosures comprised of the following:

- » Consolidated Balance Sheets (BS)
- » Consolidated Statements of Net Cost (SNC)
- » Consolidated Statements of Changes in Net Position (SCNP)
- » Combined Statements of Budgetary Resources (SBR)

GENERAL FUND

The DAF GF supports the core missions and overall operations of the DAF. The DAF GF is financed primarily by enacted congressional appropriations in the following five major appropriation categories:

- » **Military Personnel (MILPERS):** MILPERS includes expenditures for the salaries and other compensation (housing, allowances, etc.) for active military personnel, reserve, and guard forces.
- » **Operations, Readiness, and Support:** Operations, Readiness, and Support includes expenditures that provide benefits derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, and base operations support.
- » **Procurement:** Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- » **Research, Development, Test, and Evaluation (RDT&E):** RDT&E includes expenditures related to efforts that increase the DAF's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These efforts include all costs necessary to develop and test prototypes as well as the performance of services.
- » **Family Housing and Military Construction (MILCON):** Family Housing and MILCON includes expenditures associated with purchasing, leasing, and support services for property that house DAF Service members and their families; as well as expenditures related to planning, designing, constructing, altering, and improving the DAF's military facilities.

ANALYSIS OF FINANCIAL STATEMENTS

In FY 2024, the DAF GF corrected errors identified in FY 2023 balances. Accordingly, FY 2023 balances related to Advances and Prepayments; Operating Materials and Supplies (OM&S), Net; and General Property, Plant, and Equipment (PP&E) were restated. This restatement resulted in a \$19.1 billion impact to the BS, \$755.9 million impact to the SNC, and \$19.1 billion impact to the SCNP for FY 2023 balances. As a result, the FY 2023 numbers presented in this section reflect restated balances. For additional information related to prior period adjustments, refer to DAF GF [Note 27, Restatements](#).

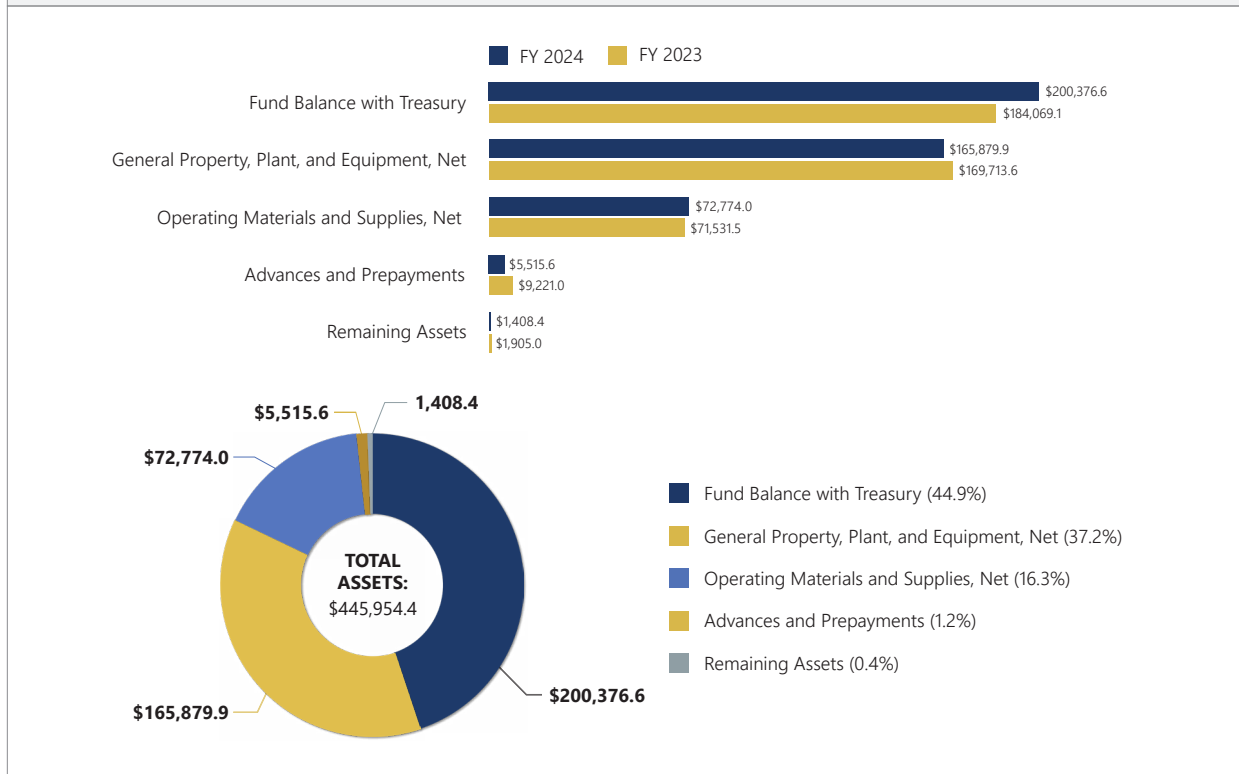
CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF GF's financial position as of September 30, 2024, and September 30, 2023, reports the DAF GF's amounts of future economic benefits owned or managed by the DAF GF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

The DAF GF's \$446.0 billion in assets at Fiscal Year End (FYE) 2024 is predominantly comprised of Fund Balance with Treasury (FBwT); General PP&E; OM&S; and Advances and Prepayments; which together represent 99.7% of the DAF GF's assets. This is approximately a 2.2% overall increase from FYE 2023, in which assets were \$436.4 billion.

Changes related to the DAF GF's assets between FYE 2024 and FYE 2023 are primarily related to FBwT which increased by \$16.3 billion (8.9%) which is associated with overall funding increases across the DAF GF appropriations.

FIGURE 6: DAF GF's Asset Comparison | DAF GF's FYE 2024 Assets (in millions) (unaudited)

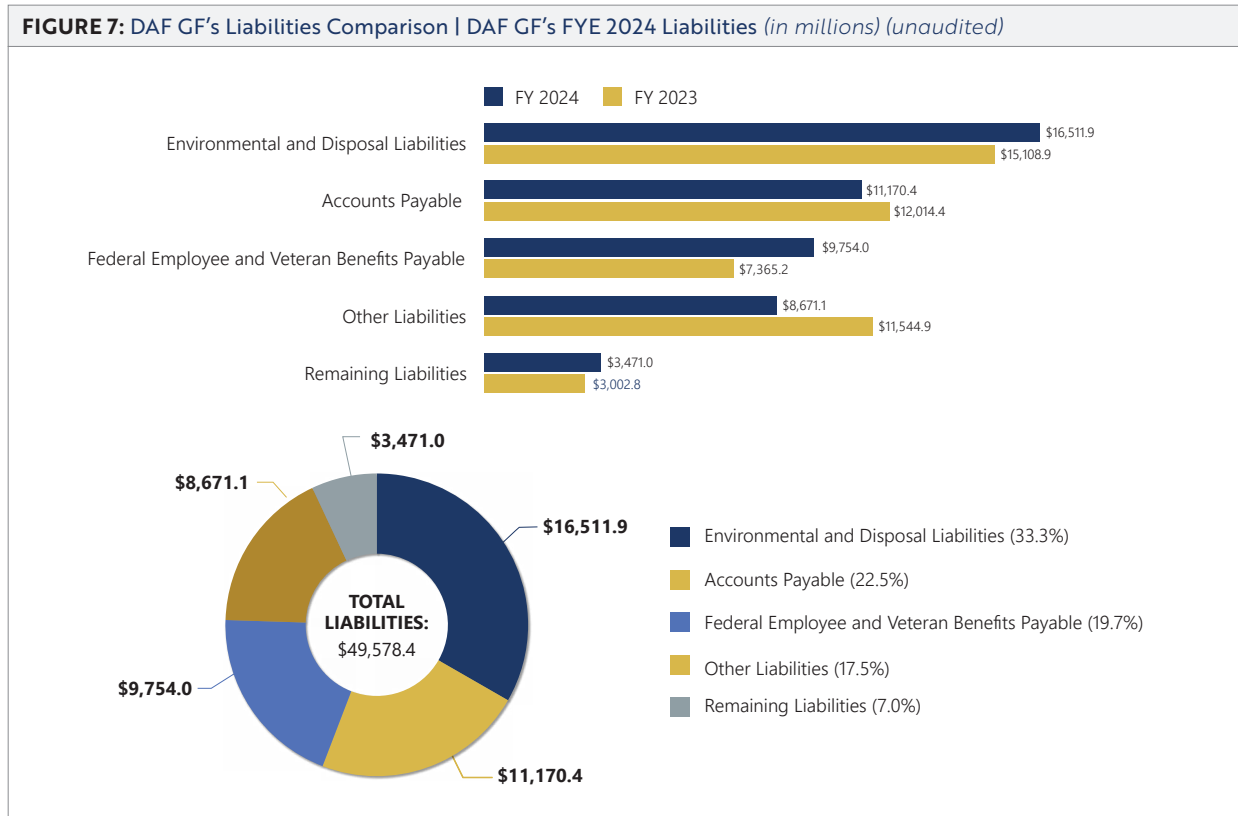


ANALYSIS OF FINANCIAL STATEMENTS

The DAF GF's \$49.6 billion of liabilities at FYE 2024 is predominantly comprised of Environmental and Disposal Liabilities, Other Liabilities, Accounts Payable, and Federal Employee and Veteran Benefits Payable, which together represent 93.0% of the DAF GF's liabilities. This is approximately a 1.2% overall increase from FYE 2023, in which liabilities were \$49.0 billion.

The slight increase of approximately \$0.6 billion was primarily driven by Federal Employee and Veteran Benefits due to additional payable accruals.

FIGURE 7: DAF GF's Liabilities Comparison | DAF GF's FYE 2024 Liabilities (in millions) (unaudited)



ANALYSIS OF FINANCIAL STATEMENTS

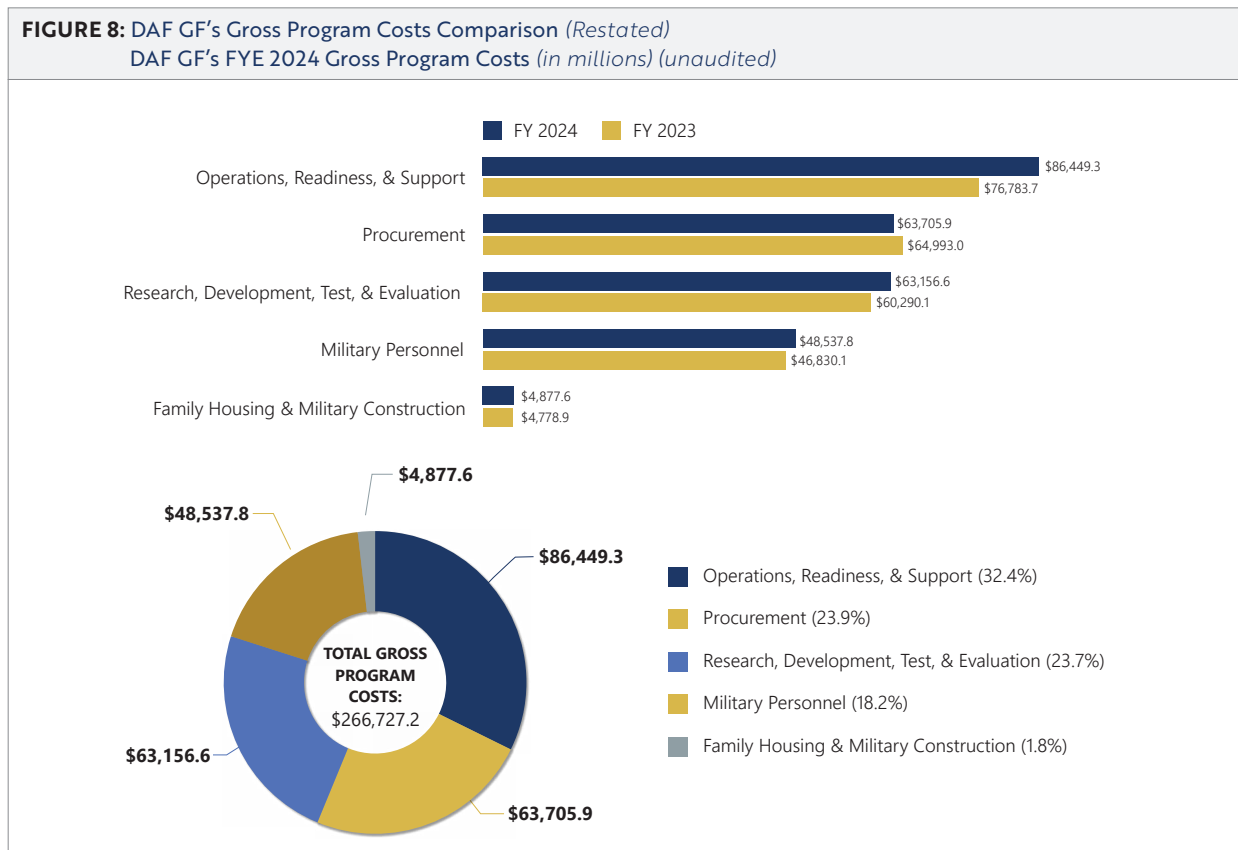
CONSOLIDATED STATEMENTS OF NET COST

The Consolidated SNC represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means for the years ended September 30, 2024, and September 30, 2023. It provides 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 DAF GF Net Cost of Operations was \$252.3 billion at FYE 2024 and \$241.6 billion (restated) at FYE 2023, which is a 4.4% increase from FYE 2023.

The culmination of the five program cost categories MILPERS; Operations, Readiness, and Support; Procurement; RDT&E; and Family Housing and MILCON, less earned revenue, make up the net cost of operations.

The DAF GF Gross Costs increased by \$13.1 billion (5.2%) as a result of a number of factors, mainly DAF GF Operations, Readiness, and Support, Procurement, and RDT&E activities. These program costs increased as a result of spending for additional research and development contracts and non-capitalizable equipment purchases.

FIGURE 8: DAF GF's Gross Program Costs Comparison (Restated)
 DAF GF's FYE 2024 Gross Program Costs (in millions) (unaudited)

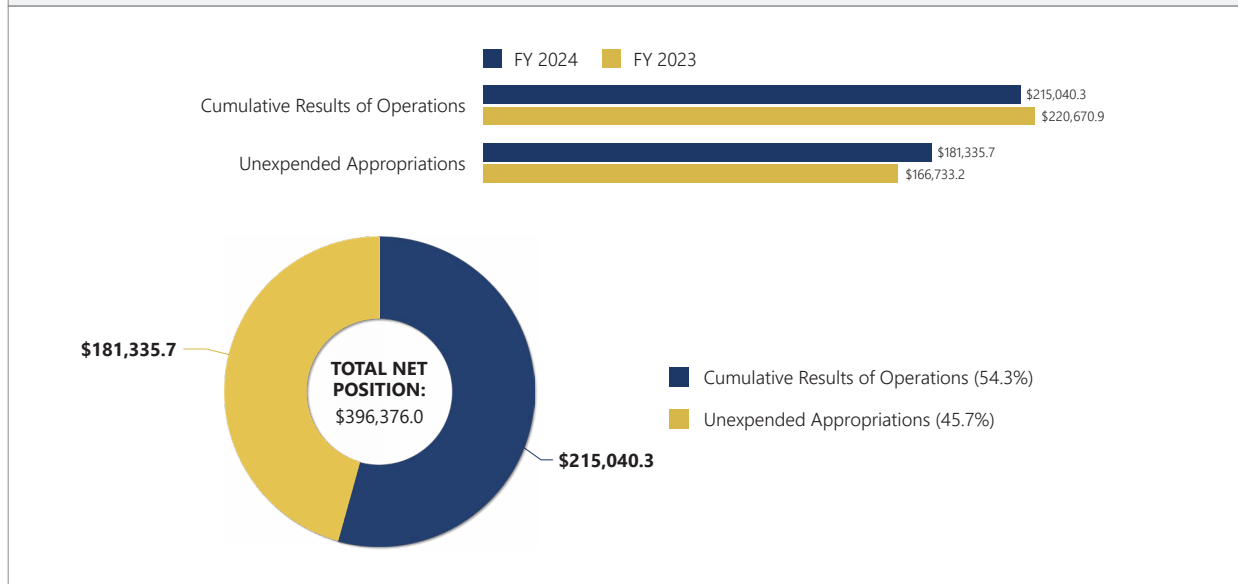


ANALYSIS OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNP represents the total Net Position, which is composed of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2024, the DAF GF's net position was approximately \$396.4 billion, compared to \$387.4 billion (restated) at FYE 2023, approximately a 2.3% increase. This increase was attributed to increase in funding across the DAF GF appropriations for modernization efforts, civilian and military end-strength growth, readiness, and space activities.

FIGURE 9: DAF GF's Net Position Comparison | DAF GF's FYE 2024 Total Net Position (in millions) (unaudited)



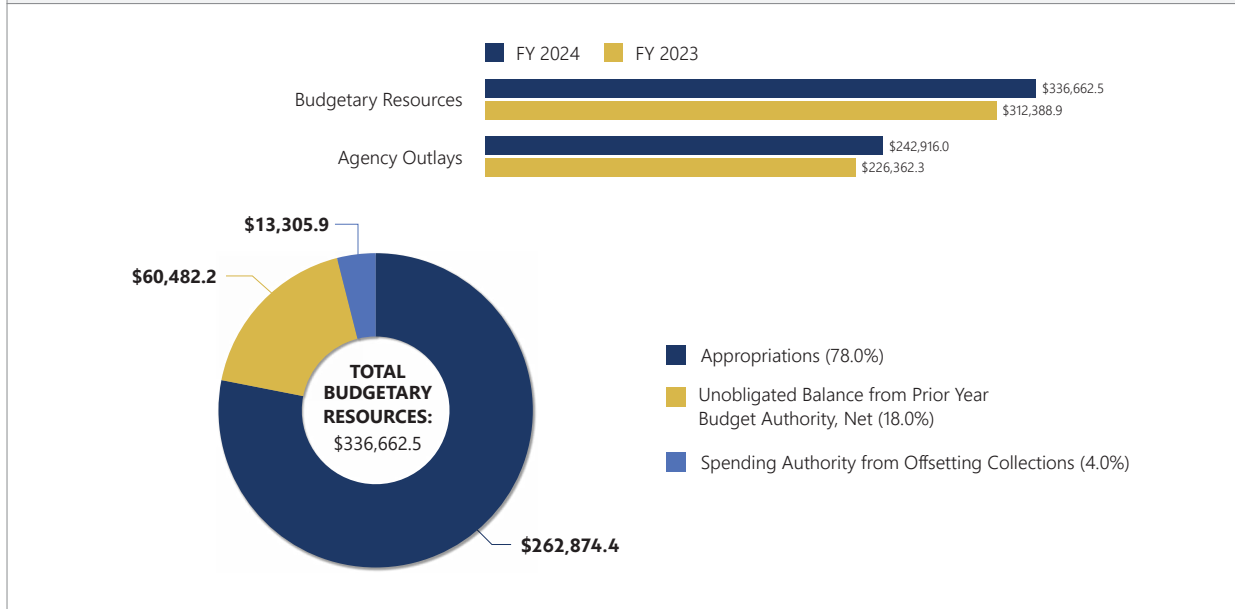
COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined SBR provides information on the budgetary funding available to the DAF GF. The DAF GF's resources consist primarily of funds received from two sources: appropriations from Congress for the current FY and unobligated balances from prior FYs. The DAF GF's Budgetary Resources and Net Outlays were approximately \$336.7 billion and \$242.9 billion at FYE 2024 and \$312.4 billion and \$226.4 billion at FYE 2023, respectively, representing an increase of approximately 7.8% in Budgetary Resources and an increase of approximately 7.3% in Net Outlays.

The FY 2024 enacted appropriations of \$262.9 billion represent 78.0% of total budgetary resources compared to 80.0% in FY 2023. The DAF GF obligated \$284.5 billion, or 84.5%, of the Total Budgetary Resources in FY 2024, and the remaining \$52.2 billion, or 15.5%, of available funding remained unobligated as of the end of FY 2024, compared to 87.2% and 12.8% respectively in FY 2023.

ANALYSIS OF FINANCIAL STATEMENTS

FIGURE 10: DAF GF's Statement of Budgetary Resources Comparison
 DAF GF's FYE 2024 Sources of Budgetary Resources (in millions) (unaudited)



The DAF GF's Budgetary Resources increased by \$24.3 billion (7.8%). The primary drivers include an increase in funding across Appropriations of approximately \$13.1 billion, combined with the increase in remaining unobligated balance mentioned previously of approximately \$8.4 billion. The largest Appropriation drivers include:

- » The Procurement appropriations increased approximately \$6.0 billion due to modernization across aircraft models, procurement for the F-35A and F-15 fighter and KC-46 tankers, and investments in advanced capabilities for to support integrated deterrence.
- » The RDT&E appropriations increased by \$4.2 billion primarily driven by increases in Advanced Component Development and Prototypes such as nuclear modernization efforts.
- » The Operations, Readiness, and Support appropriations increased by \$2.5 billion, primarily driven by additional investments in air operations base support, Weapon System Sustainment Contractor Logistics and system support, and medical readiness.

ANALYSIS OF FINANCIAL STATEMENTS

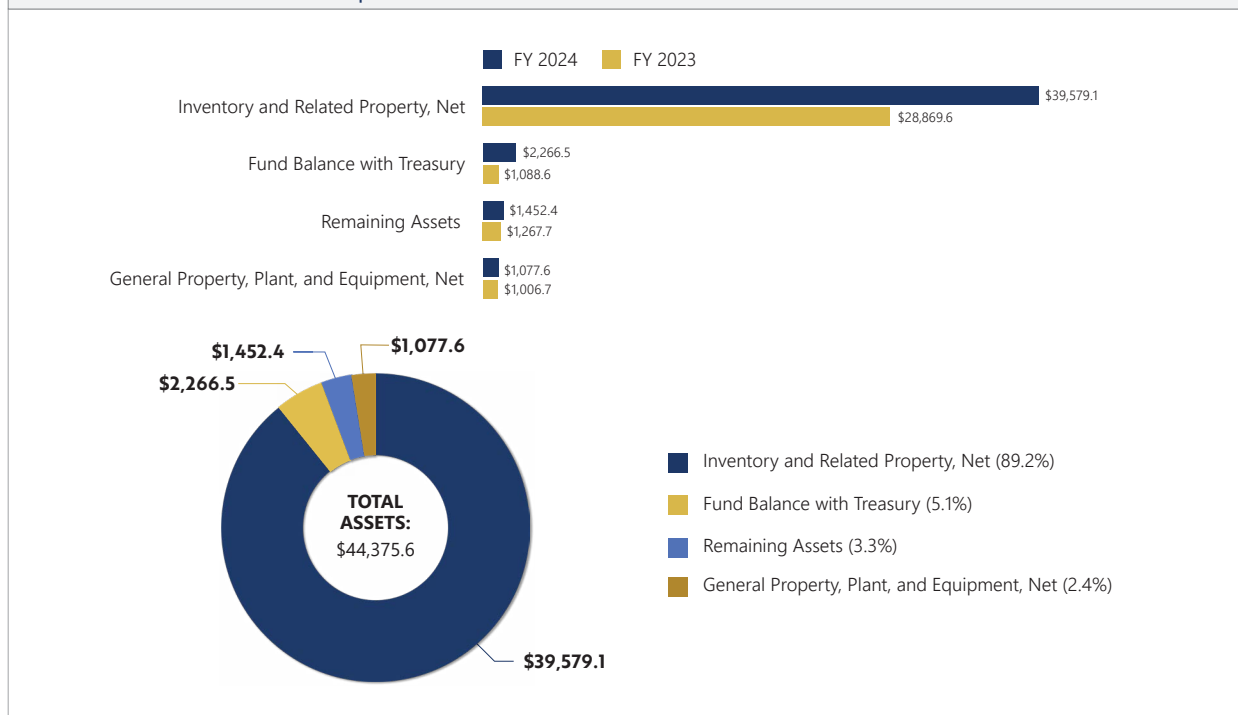
WORKING CAPITAL FUND

The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, "business-like" activity that generates revenue from providing goods and services. It is integral to readiness and sustainability of the DAF's air and space assets and its ability to deploy forces around the globe in support of Overseas Contingency Operations and National Military Strategy requirements. Directly and indirectly, the DAF WCF activities provide warfighters the key services needed to meet mission capability requirements.

CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF WCF's financial position as of September 30, 2024 and September 30, 2023, reports the DAF WCF's amounts of future economic benefits owned or managed by the DAF WCF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position). The DAF WCF's \$44.4 billion in assets at FYE 2024 is predominantly comprised of Inventory and Related Property; FBwT; and General PP&E; which together represent 96.7% of the DAF WCF's assets. This is approximately a 37.9% overall increase from FYE 2023, in which assets were \$32.2 billion. Significant changes and underlying causes related to the DAF WCF's assets between FYE 2024 and FYE 2023 are primarily related to Inventory and Related Property which increased \$10.7 billion (37.1%). This increase is the result of a change in accounting policy for the valuation of Inventory Held for Repair from the Allowance Method to the Direct Method. For additional information, refer to WCF [Note 5, Inventory and Related Property, Net](#).

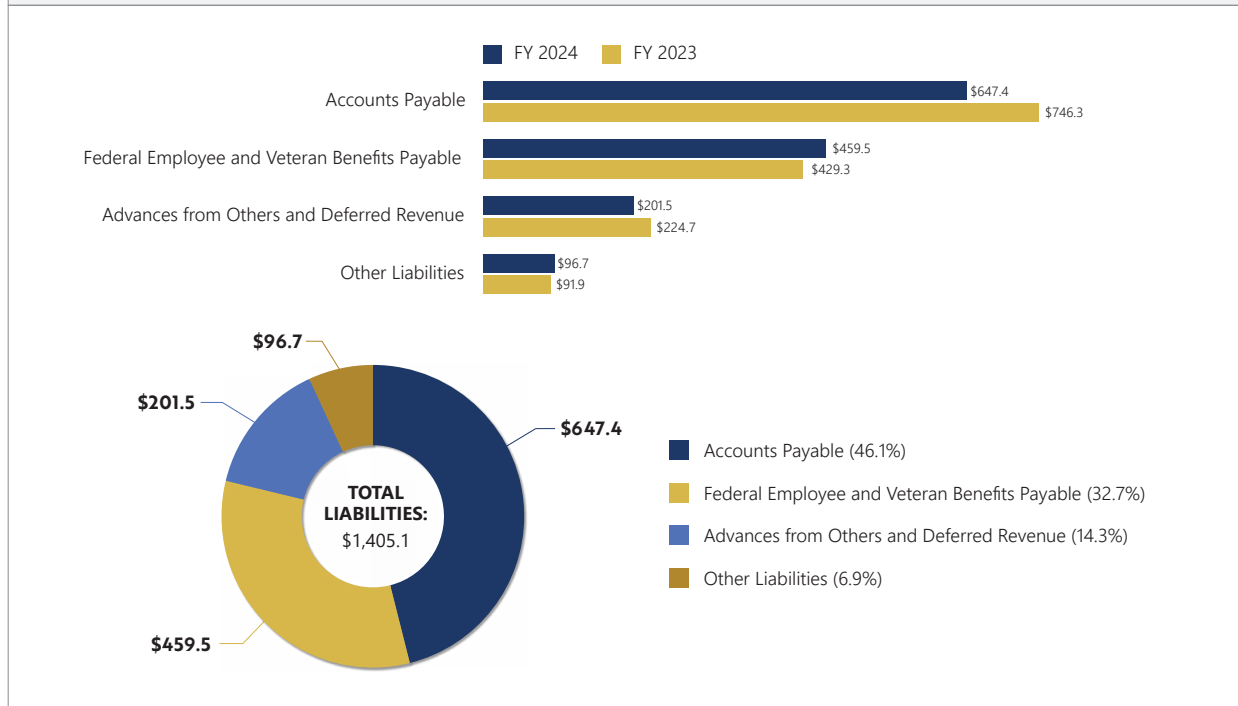
FIGURE 11: DAF WCF's Asset Comparison | DAF WCF's FYE 2024 Assets (in millions) (unaudited)



ANALYSIS OF FINANCIAL STATEMENTS

The DAF WCF's liabilities decreased slightly from \$1.5 billion in FYE 2023 to \$1.4 billion in FYE 2024 and is comprised of Accounts Payable, Federal Employee and Veteran Benefits Payable, Advances from Others and Deferred Revenue, and Other Liabilities. Significant changes and underlying causes related to the DAF WCF's liabilities between FYE 2024 and FYE 2023 are primarily related to Accounts Payable which decreased \$98.9 million (13.3%) and can be attributed to decreased costs.

FIGURE 12: DAF WCF's Liabilities Comparison | DAF WCF's FYE 2024 Liabilities (in millions) (unaudited)

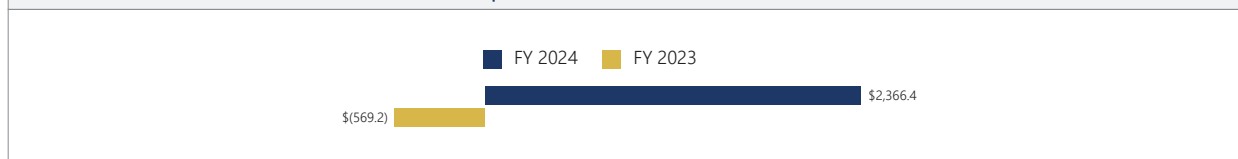


CONSOLIDATED STATEMENTS OF NET COST

The Consolidated SNC represents the gross cost incurred by the DAF WCF to conduct its operations less any exchange revenues earned from its activities. The FYE 2024 DAF WCF's Net Cost of Operations was approximately \$2.4 billion compared to \$(569.2) million in FY 2023.

The \$2.9 billion (509.5%) increase in the DAF WCF's Net Cost of Operations from FYE 2023 to FYE 2024 was attributed to a \$3.6 billion increase in Gross Costs resulting from increases in the cost of goods sold associated with the change in Accounting Principle for valuing inventory associated with an exchange sale. The increase in Gross Costs was offset by a \$705.2 million increase in Earned Revenue, resulting from rate and price increases to account for inflation and recover prior year losses. For additional information, refer to WCF [Note 12, Disclosures Related to the Statement of Net Cost](#).

FIGURE 13: DAF WCF's FYE 2024 Net Cost of Operations (in millions) (unaudited)

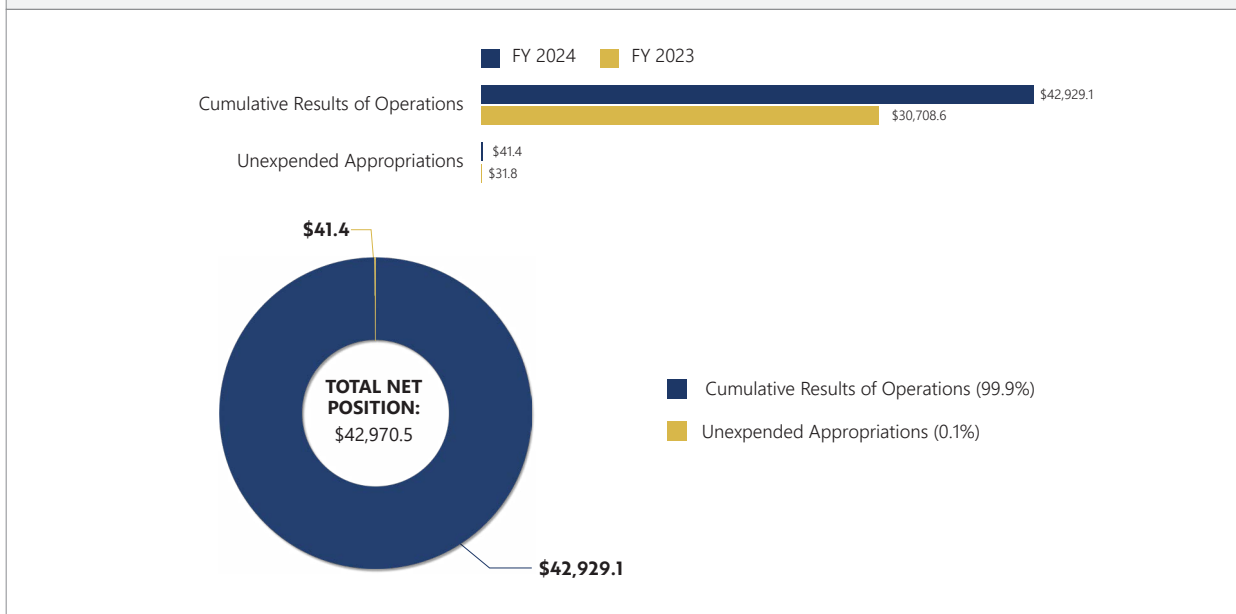


ANALYSIS OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNP represents the total Net Position, which is comprised of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2024, the DAF WCF's net position was approximately \$43.0 billion, compared to \$30.7 billion at FYE 2023, a 40.1% increase. This increase was attributed to the impacts the change in accounting principle had on inventory balances, Gross Costs, and Other Financing Sources. For additional information, refer to WCF [Note 5, Inventory and Related Property, Net](#), [Note 12, Disclosures Related to the Statement of Net Cost](#), and [Note 13, Disclosures Related to the Statement of Changes in Net Position](#).

FIGURE 14: DAF WCF's Net Position Comparison | DAF WCF's FYE 2024 Total Net Position (in millions) (unaudited)



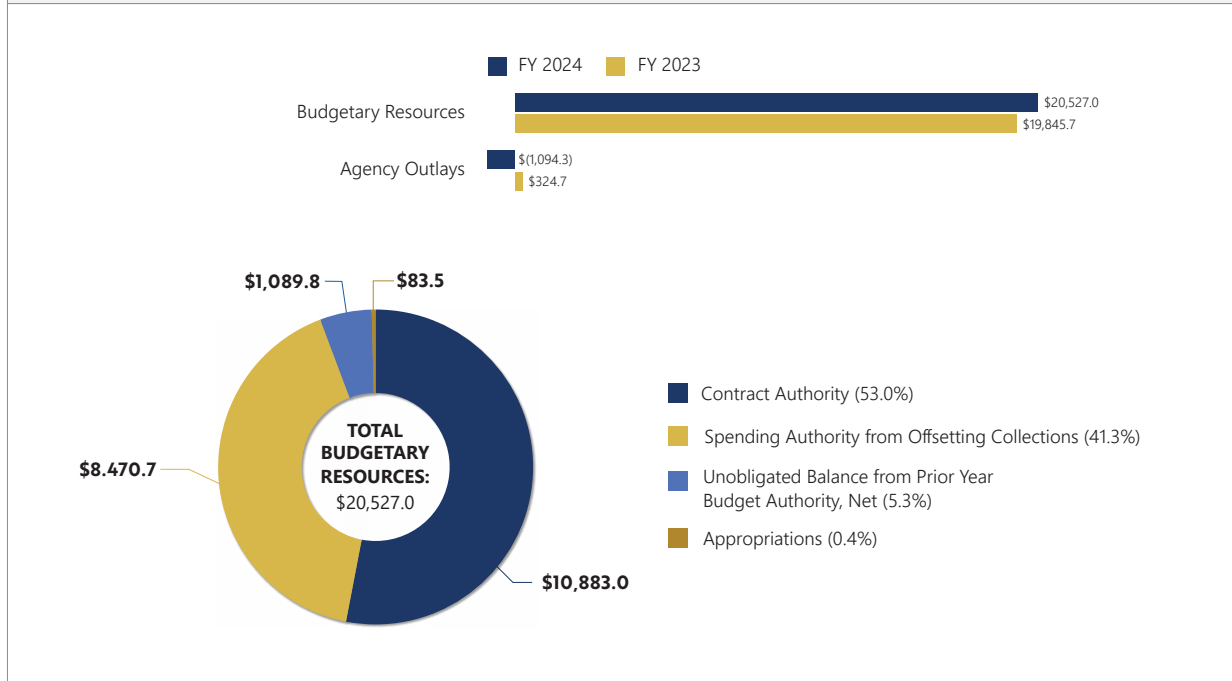
COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined SBR provides information on the budgetary resources available to the DAF WCF. The DAF WCF's Budgetary Resources are a culmination of unobligated balances from the prior year budget authority, appropriations, contract authority, and spending authority from offsetting collections. The DAF WCF's Budgetary Resources and Net Outlays were approximately \$20.5 billion and \$(1.1) billion at FYE 2024 and \$19.8 billion and \$324.7 million at FYE 2023, respectively, representing an increase of approximately 3.5% in Budgetary Resources and a decrease of approximately 438.8% in Net Outlays.

The DAF WCF's FY 2024 resources from Contract Authority and Spending Authority from offsetting collections represent \$19.4 billion or approximately 94.3% of total budgetary resources compared to \$18.9 billion or approximately 95.5% of total budgetary resources in FY 2023. The DAF WCF obligated \$19.1 billion of the \$20.5 billion Total Budgetary Resources in FY 2024 compared to \$18.7 billion of the \$19.8 billion Total Budgetary Resources in FY 2023. The remaining \$1.4 billion of available resources remained unobligated as of the end of FY 2024 compared to \$1.1 billion in FY 2023.

ANALYSIS OF FINANCIAL STATEMENTS

FIGURE 15: DAF WCF's Statement of Budgetary Resources Comparison
 DAF WCF's FYE 2024 Sources of Budgetary Resources (in millions) (unaudited)



Significant changes and underlying causes related to the DAF WCF's Combined Statement of Budgetary Resources between FYE 2024 and FYE 2023 include Budgetary Resources which increased by \$0.7 billion (3.5%). The DAF WCF's FY 2024 Budget Authority increased by \$482.0 million (2.6%). This increase can be attributed to the \$477.2 million increase in Spending Authority from Offsetting Collections resulting from the maintenance rate increase to account for inflation and recover prior year losses. The Net Outlays decrease of \$1.4 billion (437.0%) is attributable to a \$955.0 million decrease in disbursements and a \$464.0 million increase in collections.

ANALYSIS OF FINANCIAL STATEMENTS

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S. Code, § 3515(b). The statements are prepared from records of federal entities in accordance with GAAP published by the Federal Accounting Standards Advisory Board and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government. The DAF is unable to fully implement all elements of GAAP and OMB Circular No. A-136, due to limitations of financial and non-financial management processes and systems that support the financial statements. Additional effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF activities.



Master Sgt. Greg Barham, 167th Airlift Wing instructor loadmaster, and Staff Sgt. Christian Magliocca, 15th Airlift Squadron instructor loadmaster, await refueling operations to complete during the Forward Area Refueling Point (FARP) Rodeo at Joint Base Charleston, SC. By conducting FARP training, C-17 Globemaster III crews develop a greater agility and ability to quickly respond and provide global power projection under the cover of darkness in austere environments. —USAF photo by Staff Sgt. Spencer Slocum

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DAF's Commanders and Managers are responsible for confirming the integrity of applicable systems and controls, as well as compliance with applicable laws and regulations. A key element of this responsibility is adherence to the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA) and the *Federal Managers' Financial Integrity Act of 1982* for internal controls addressing financial and non-financial reporting, integrated financial management systems, and operations. Accessible financial information and effective internal controls increase accountability and transparency, thereby enhancing public confidence in the DAF's stewardship of public resources. The DAF continues to design and implement internal control activities to improve the integration of business processes, systems, and financial reporting to eliminate errors that could lead to misstatement or noncompliance with laws and regulations.

MANAGEMENT ASSURANCES

The DAF performed its annual assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office-14-704G, *Standards for Internal Control in the Federal Government* (the Green Book). Based on the results of this assessment, the DAF achieved the following management assurance levels as of September 30, 2024:

- » Internal Controls over Reporting – assurance, except for 15 material weaknesses
- » Internal Controls over Operations – assurance, except for 10 material weaknesses
- » Internal Controls over Financial Systems – assurance, except for two material weaknesses
- » Entity Level Controls, including fraud – unable to provide assurance, due to two material weaknesses that are included in the Internal Control over Reporting material weaknesses listed above

Refer to [Table 1](#) in the *Other Information: Summary of Financial Statement Audit and Management Assurances* section of the Agency Financial Report (AFR) for the listing of material weaknesses identified by the Independent Public Accountant (IPA). In its financial statement audit, the IPA does not report on deficiencies (including material weaknesses) in internal control over operations; however, DAF management does report material weaknesses in internal control over operations. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the Statement of Assurance issuance and the date of the Auditor's Report. The DAF concurs with the material weaknesses identified by the IPA, which are consistent with those identified by DAF management after consideration for current year material weakness changes.

INTERNAL CONTROL GOVERNANCE

In FY 2024, the DAF leveraged the Risk Management Council (RMC) and Senior Management Council (SMC) to provide oversight of enterprise risk management and internal control activities over operations. RMC responsibilities focus on approving the DAF Enterprise Risk Profile and holding enterprise risk owners accountable for driving enterprise risk management efforts. Primary responsibilities of the SMC include monitoring deficiencies in internal control in accordance with OMB Circular No. A-123 and the Green Book to oversee the timely implementation of corrective actions related to operational material weaknesses and significant deficiencies. The DAF continued to leverage the Executive Steering Committee (ESC) to fulfill the role of the Senior Assessment Team (SAT) in FY 2024. In its role as the SAT, the ESC assesses the implementation progress of corrective action plans (CAPs) for financial reporting and financial systems material weaknesses and significant deficiencies. In FY 2024, the DAF established the Fraud Risk Oversight Committee (FROC) to provide oversight and monitoring of the effectiveness of internal controls to manage the risk of fraud. The FROC is responsible for the DAF's fraud risk assessment process, the Government Accountability Office fraud risk management framework assessment, anti-fraud activities across the program, and the DAF's fraud risk profile.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

In addition, the DAF continued implementation of the Enterprise Governance, Risk, and Compliance (eGRC) tool to streamline and automate the OMB Circular No. A-123 program. In FY 2024, eGRC served as the official repository for Risk Management and Internal Control assessments.

INTERNAL CONTROL OVER REPORTING

In FY 2024, the DAF continued to improve the quality of its business process documentation to include risks and internal controls over reporting. The DAF self-assessed key internal controls within its business processes and evaluated the results of external audits, identifying 15 total uncorrected material weaknesses, comprised of eight DAF GF and seven DAF WCF material weaknesses.

The tables below include the 15 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

TABLE 1: Fiscal Year 2024 Material Weaknesses in Internal Control over Reporting

UNCORRECTED DAF GF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Procure-to-Pay	Accounts Payable, Expenses, and Accounting for Contract Financing Payments	Reconcile United States Standard General Ledger (USSGL) balances and develop roll forwards for Obligations, Accounts Payable, and Contract Financing Payments (CFP) line items. Design an Accounts Payable accrual methodology. Coordinate with the Defense Finance and Accounting Service (DFAS) around a Mechanization of Contract Administration Services (MOCAS) replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2025
Multiple	Entity Level Controls	Continue to develop executive oversight and authorities for Financial Improvement and Audit Remediation (FIAR) leadership to make and enact FIAR decisions rapidly. Formalize processes for consistent integration and collaboration between functional organizations and provide a holistic understanding of risks across the enterprise.	FY 2026
Budget-to-Report	Integration and Reconciliation of Financial Systems	Develop and implement an integrated Financial Management system to meet federal system requirements, comply with federal accounting standards with the ability to post transactions and report in compliant format. Establish automated processes to execute reconciliations between source/feeder systems, USSGL, and financial statements.	FY 2026
Acquire-to-Retire	Military Equipment	Implement and continue to refine preventative and detective controls around construction-in-progress (CIP), asset entry and updates in Accountable Property System of Records (APSR), and the existence and completeness of aircraft pods.	FY 2024
Plan-to-Stock	Operating Materials and Supplies	Improve the process to value and record newly acquired Operating Materials and Supplies (OM&S) needs and enhance procedures to record ongoing OM&S activities.	FY 2026
Acquire-to-Retire	Other General Equipment	Develop and implement policies and procedures to account for full costs of new acquisitions, including CIP, for accurate financial statement reporting.	FY 2025

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF GF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Acquire-to-Retire	Property and Materials Held by Others	Implement an APSR to financially report contractor managed/ possessed property not in a government APSR. Execute contract modifications, when necessary, to enforce contract oversight and vendor reporting requirements.	FY 2026
Acquire-to-Retire	Real Property	Obtain documentation to support baseline valuation using deemed cost. Implement procedures to record actual cost of Real Property, facility CIP and depreciation. Complete analysis of subledger balance changes required. Complete floor-to-book and book-to-floor inventory in a timely manner.	FY 2025

UNCORRECTED DAF WCF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Budget-to-Report	Accounts Payable, Gross Costs and Contract Financing Payments	Reconcile USSGL balances and develop roll forwards for Obligations, Accounts Payable, and CFP line items. Design an Accounts Payable accrual methodology. Coordinate with DFAS around a MOCAS replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2025
Multiple	Earned Revenue and Accounts Receivable	Perform revenue risk assessments, validate design and effectiveness of control activities, evaluate control gaps, maintain sufficient documentation, and monitor control sustainment activities.	FY 2027
Multiple	Entity Level Controls	Develop and implement a more comprehensive oversight program to include a robust data analytics environment. Routinely perform data analysis, confirming identification and resolution of potential unusual transactions and balances.	FY 2028
Budget-to-Report	Fund Balance with Treasury	Include supporting documentation in each DAF WCF journal voucher package that reconciles Fund Balance with Treasury to reported Treasury activity.	FY 2024
Budget-to-Report	Integration and Reconciliation of Financial Systems	Implement cost effective remediations in the legacy environment pending Information Technology (IT) modernization.	FY 2028
Plan-to-Stock	Inventory Held by the Department of the Air Force Working Capital Fund	Improve depot, base, and medical/dental inventory count procedures; controls over inventory transactions; and in-transit inventory accountability. Coordinate existence and completeness baseline timing with Valuation Go-Forward and Statement of Federal Financial Accounting Standard (SFFAS) 48 Baseline efforts.	FY 2025
Plan-to-Stock	Inventory Held by Others	Develop a process to routinely monitor variances between Defense Logistics Agency and the DAF and adjust the two sets of records to the actual inventory on hand. Address issues with inventory held by contractors and other defense organizations. Coordinate existence and completeness baseline timing with Valuation Go-Forward and SFFAS 48 Baseline efforts.	FY 2026

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTERNAL CONTROL OVER FINANCIAL SYSTEMS

The DAF is committed to improving financial and financial feeder IT systems across the enterprise and has established a goal of achieving a modernized, sustainable, and audit-compliant portfolio of its financial systems, including feeder systems and applications, as efficiently and cost-effectively as possible. The DAF continues to make progress toward effective internal controls, standardized business processes, integrated financial/feeder systems, and a workforce marked by human capital leading practices. Critical systems to financial reporting and control span across various business functions including, but are not limited to, acquisition (Contract Information Technology), logistics (Theater Integrated Combat Munitions System, Next Generation Information Technology, Reliability and Maintainability Information System), and financial management (Defense Enterprise Accounting and Management System).

The DAF has 42 Defense Business Systems that are material to the DAF GF and DAF WCF financial statements. In FY 2024, these systems were substantially non-compliant with critical requirements including Federal Information Systems Control Audit Manual (FISCAM), FFMIA, and Standard Financial Information Structure. The DAF received 150 IT Notices of Findings & Recommendations (NFRs) as a result of the financial statement audit. Audit and compliance gaps were identified in critical IT general controls and business process application controls and with Federal Financial Management System Requirements. These deficiencies contributed to several entity level findings, including an overall material weakness for Financial Information Systems for both the DAF GF and DAF WCF.

In FY 2024, the DAF Business Mission Area continued to fully implement its Enterprise IT Strategy to simplify, secure, and modernize its portfolio of financial and financial feeder systems, as well as systems owned by third-party service providers that impact DAF financial statements. The DAF submitted 39 IT CAPs to the IPA for closure, with half pertaining to access controls, a primary Secretary of Defense priority. Remediating access control deficiencies helps to safeguard sensitive data from unauthorized access and misuse. In addition, the DAF continues to implement CAPs to improve the monitoring and evaluation of risks associated with third-party service providers by establishing monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports, memorandums of understanding/agreements, system populations, and complementary user entity controls) in accordance with OMB Circular No. A-123. The DAF conducted internal control assessments and coordinated with the Air Force Audit Agency to begin agreed upon procedures for additional control testing. These efforts resulted in the evaluation of more than 1,600 FISCAM and FFMIA controls across 17 applications. Assessing non-compliant or previously unassessed controls is critical for the DAF to achieve compliance with key requirements and enable auditability of material systems.

The DAF will continue to implement enhanced cross functional governance and tools to support monitoring of compliance requirements, implementation of cybersecurity solutions (e.g., Identity, Credential, and Access Management (ICAM); Security Information and Event Monitoring, System Security and Configuration Management Database/Enterprise Integration), and retirement of legacy systems. For example, in FY 2024 the DAF continued implementation of a multi-year roadmap to accelerate ICAM capabilities for critical Financial and Financial Feeder systems, in alignment with the Secretary of Defense and DAF strategic audit and cybersecurity goals. The implementation of ICAM capabilities in IT solutions will limit access to critical systems and financial data to those with a "need to know." Additionally, the DAF is leveraging automation (e.g., robotic process automation (RPA)) to remediate audit findings and reduce its reliance on manual controls and processes. RPA utilizes current DAF applications and systems to help monitor and execute repetitive processes. The implementation of these automations allows for reassessment and improvement of processes, the elimination of manual entries, enhancement of error-handling, and resolution of audit shortcomings and NFRs. In FY 2025, the DAF will continue assessing critical requirements, validating implemented CAPs, and onboarding financial systems to key capabilities.

The table below describes the two material weaknesses in internal control over financial systems, along with the corresponding corrective actions for the DAF GF and the DAF WCF.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

TABLE 2: Fiscal Year 2024 Material Weaknesses in Internal Control over Financial Systems

UNCORRECTED DAF GF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026

UNCORRECTED DAF WCF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026



A HISTORIC LAUNCH

On September 28, 2024, Col. Nick Hague, a USSF Guardian and National Aeronautics and Space Administration (NASA) astronaut, was launched into space for the first time from Cape Canaveral Space Force Station, Florida, as part of NASA's SpaceX Crew-9 mission to the International Space Station. Col. Nick Hague will command the mission and join the Expedition 72 crew, where they will conduct scientific research and maintenance activities.

"I feel privileged to have the opportunity to cast a broader spotlight on everything that Guardians do to make human space flight possible," Hague said. "Human space flight doesn't exist if Guardians aren't doing what they do on a day-to-day basis, whether it's launching us into space and the range support that we get there or it's tracking or navigation."

"Col. Hague represents NASA, but, beneath the spacesuit, he remains a Guardian—embodying the character, commitment, connection, and courage inherent to the Guardian spirit" said Chief of Space Operations General Chance Saltzman.

In order to abide by its mission of securing our nation's interest in, from, and to space, the USSF has strong partnerships within the space sector, including NASA.

"NASA and the Space Force have very different functions, but we share a common interest in the free and responsible use of the space domain," said Secretary of the Air Force Frank Kendall. "We also share an understanding of the importance of integrating with our allies and partners, joining Guardian values to civil space objectives for the collective good. I wish Nick all the best on his mission to the International Space Station."

A SpaceX Falcon 9 rocket launches from Space Launch Complex 40 at Cape Canaveral Space Force Station, FL. The rocket carried USSF Col. Nick Hague in a Dragon spacecraft that he is set to pilot to the International Space Station. This Crew-9 launch marks the first time that a USSF Guardian has launched into space. —USSF photo by Senior Airman Spencer Contreras

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTERNAL CONTROL OVER OPERATIONS

In FY 2024, the DAF leveraged the SMC to identify, assess, and monitor material weaknesses over operations. The table below describes the 10 material weaknesses in internal control over operations, along with the corresponding corrective actions.

TABLE 3: Fiscal Year 2024 Material Weaknesses in Internal Control over Operations

UNCORRECTED INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology - Business System Modernization	Civil Engineer Control Systems Cyber Hygiene	Deconflict guidance for Civil Engineer control system incident response, recovery, and contingency plans. Establish and implement processes to monitor training requirements, notify users when updated tools are available, and monitor cyber hygiene documentation.	FY 2024
Contract Administration	Contracting Officer Representatives	Confirm that a qualified Contracting Officer Representative is designated for all service contracts. Retain and execute contract oversight responsibilities. Enhance existing process to further reduce improper payments.	FY 2024
Other	Criminal History Data Reporting Requirements	Further codify DAF Criminal Justice Information Cell with Initial Operating Capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.	FY 2028
Information Technology - Business System Modernization	Cybersecurity of Automatic Test Systems and Equipment	Develop a new compliance tracking system.	FY 2025
Security	Cybersecurity of Network Component Purchases	Develop and document a process to confirm network component purchases are documented in the DAF accountable record upon receipt. Update the DAF Enterprise Configuration Monitoring Strategy to investigate, identify, and disseminate monitoring tools and techniques at the network component level.	FY 2025
Force Readiness	Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	Develop and implement a new training plan.	FY 2024
Security	Protection of Sensitive Information on the Network	Reinforce data encryption controls.	FY 2024
Security	Special Access Programs Report #1	Develop and implement remediation activities for open recommendations.	FY 2024
Security	Secure Internet Protocol Router Network Access Controls	Properly configure all network components and devices.	FY 2025
Information Technology - Business System Modernization	Weapon System Cyber Hygiene	Reinforce training requirements and documentation controls.	FY 2024

STATEMENT OF ASSURANCE



SECRETARY OF THE AIR FORCE WASHINGTON

MEMORANDUM FOR OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) DEPUTY CHIEF FINANCIAL OFFICER

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act for Fiscal
Year 2024

As Secretary of the of the Air Force, I recognize the Department of the Air Force (DAF) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DAF conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular Number (No.) A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; the Green Book, GAO14-704G, "Standards for Internal Control in the Federal Government"; and the DAF's "Summary of Management's Approach to Internal Control Evaluation." This assessment and this internal review also included an evaluation of the internal controls around our Security Assistance Accounts activities. Based on the results of the assessment, the DAF can provide assurance, except for the 12 significant deficiencies and 27 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2024. This template includes corrective action plan summaries, associated milestones, and estimated completion dates.

The DAF conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the Government Accountability Office Green Book, and the FMFIA. Based on the results of the assessment, the DAF can provide assurance, except for the eight significant deficiencies and 10 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations and compliance are operating effectively as of September 30, 2024.

The DAF conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. Based on the results of the assessment, the DAF can provide assurance, except for the four significant deficiencies and 13 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over reporting and compliance are operating effectively as of September 30, 2024.

STATEMENT OF ASSURANCE

The DAF also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. Based on the results of the assessment, the DAF can provide assurance, except for the two material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

The DAF has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and Government Accountability Office Fraud Risk Management Framework. Based on the results of the assessment, the DAF is unable to provide assurance, due to the two material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that entity-level controls including fraud controls are operating effectively as of September 30, 2024.

The DAF is hereby reporting that no Anti-Deficiency Act violation has been discovered/identified during our assessments of the applicable processes.

The DAF demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority.

If there are any questions regarding this Statement of Assurance for Fiscal Year 2024, my point of contact is Mr. Mike Mason. He can be reached at michael.mason.23@us.af.mil or 618-741-6090.



Frank Kendall

Secretary of the Air Force

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

LEGAL COMPLIANCE

The *Anti-Deficiency Act* (ADA) is codified in 31 U.S. Code §§ 1341(a)(1), 1342, and 1517(a). The ADA provides that federal agencies may not:

- » Obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations;
- » Accept voluntary services on behalf of the government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or
- » Obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

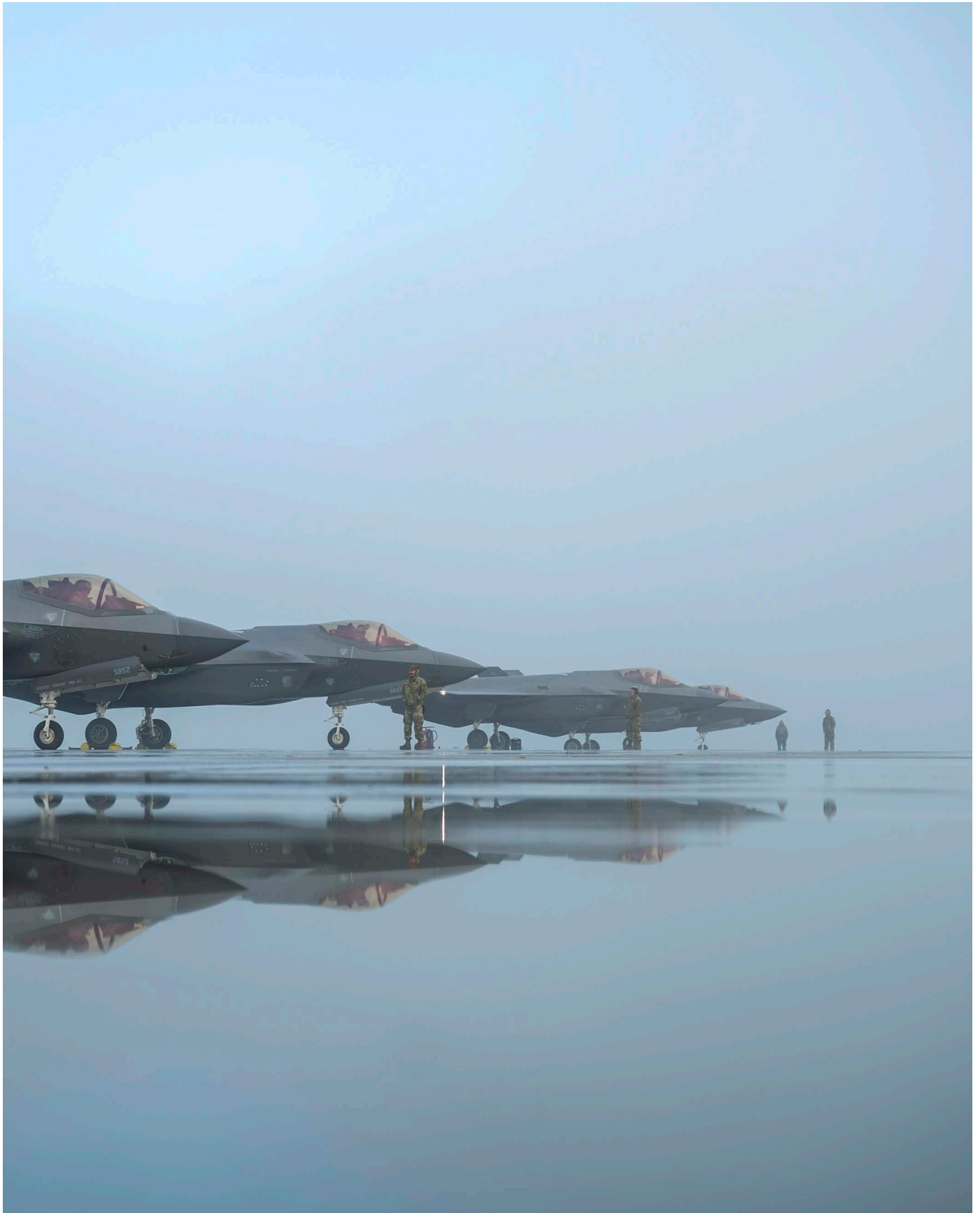
An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States. As of September 30, 2024, the DAF had two potential ADA cases that are in the preliminary review stage.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

As of September 30, 2024, the DAF is in the process of developing and implementing a program to perform a comprehensive assessment of compliance with key legal and regulatory financial requirements. The DAF plans to provide the results of the compliance assessment in future AFRs.



1st Lt. Jason Kaynak, 4th Space Operations Squadron (SOPS) Mission Planning Cell (MPC) tactician, trains with Spc. 4 Jack Wallace, 4 SOPS MPC tactician, at Schriever Space Force Base, CO. The 4 SOPS' mission is to operate the USSF protected and wideband Military Satellite Communications systems. —USSF photo by Tiana Williams



Airmen assigned to the 34th Fighter Squadron and Fighter Generation Squadron perform pre-flight checks on F-35A Lightning IIs during an agile combat employment exercise at Mountain Home Air Force Base (AFB), ID. The squadrons from Hill AFB, UT, used Mountain Home AFB for its unique terrain and airspace to conduct simulated combat scenarios to test their agile combat employment and readiness capabilities. —USAF photo by Airman Keagan Lee

FORWARD-LOOKING INFORMATION

For over 75 years, the DAF consistently provided unparalleled capabilities to the joint force and adapted to advancements in innovation and technology. These advancements enabled the DAF to maintain and secure its strategic edge, affirming its position as the world's preeminent force in air, space, and cyberspace. To secure its competitive advantage, deter aggression, and prevail in conflict, the DAF is swiftly implementing comprehensive strategies to transform, realign, and enhance the capabilities of the joint force. As the DAF continues to prioritize the evolving strategic landscape, these competencies will be critical in aiding the DAF's efforts to accomplish its missions, the Secretary of the Air Force's (SecAF) Operational Imperatives, and the priorities within the National Defense Strategy. Emerging risks and challenges are threatening these efforts. These risks and challenges include, but are not limited to, the following:

Increased Threats to National Security Demands Enhanced Vigilance, Modernization, and Investments to Remain Competitive in a Challenging Strategic Environment

The DAF possesses competencies that underwrite the entirety of the joint force and is uniquely suited to provide the cornerstone of the nation's defense. To keep pace with the evolving strategic environment, the DAF is reoptimizing all aspects of its service to adapt to and address the challenges posed by adversaries. Re-optimization plans are organized into four main categories: Develop People, Generate Readiness, Project Power, and Develop Integrated Capabilities. Efforts include focusing on operational readiness by optimizing how the DAF organizes, trains, and equips its air and space forces; creating and elevating organizations that are critical to this new strategic environment; and establishing a single command to focus on future capabilities. Efforts to keep pace with existing and imminent threats include modernizing the DAF's nuclear program, advancing an operationally optimized Advanced Battle Management System to improve situational awareness while operating in a highly contested environment, and fielding the Next Generation Air Dominance (NGAD) systems to achieve control of the air in highly contested environments. To support these efforts, funding is directed towards improving large-scale moving target engagement, crucial for conflicts with formidable adversaries, along with advancing the NGAD Family of Systems, focusing on Collaborative Combat Aircraft. This initiative will efficiently enhance existing and future DAF platforms with cost-effective, complementary systems designed to secure air control in highly contested environments.

However, the DAF acknowledges that these efforts alone will not be enough to keep pace with evolving adversaries. To secure the nation's defense, and to mitigate existing and potential threats including the rapid increase in adversarial military capabilities, the DAF must continue to be vigilant and preserve its qualitative edge over its competitors. To accomplish these objectives, the DAF is orienting its decision-making processes around resiliency and lethality and ensuring its investments and resources are aligned to deter adversaries and to prevail in conflict. By focusing on enhancing mission resiliency and adaptability, the DAF can ensure that its defense capabilities are both effective and robustly supported. The DAF will also be implementing expansive exercises and targeted training that cover a range of operational plans, aimed at both demonstrating and practicing complex, large-scale military operations to build and enhance readiness. Additional DAF efforts include the reorganization of its operational wings to enhance mission readiness and agility. Wings will be structured as mission-ready units of actions and will feature a unique structure tailored to its specific role, incorporating a redesigned support concept based on Agile Combat Employment. This approach aims to ensure that all wings can effectively execute their missions with the assigned personnel and resources. Lastly, the DAF will continue to prioritize investments that accomplish the SecAF's seven operational imperatives, as these will play a pivotal role in modernizing the DAF's operational posture.

FORWARD-LOOKING INFORMATION

Increased Militarization of Space Requires Enhancing and Securing U.S. Space Capabilities

The U.S. has consistently been the dominant force in space, heavily depending on space-based assets to support military operations in all domains. However, as threats to American prosperity and security in space increase, alongside a greater global reliance on space, the USSF must transform to confront the dangerous operating environment that space has become. Increased adversarial counterspace threats continue to destabilize the environment and space-enabled attacks increasingly hold the joint force and our homeland at risk. More than ever, it's crucial for the DAF to match the expanding military capabilities of its adversaries and to develop robust space capabilities that provide the uninterrupted delivery of essential services to the joint force. To meet this challenge, the USSF organized its modernization efforts around an approach that aims to protect the USSF's interests without jeopardizing the stability and future of the space domain. This approach is based on three key principles: avoiding operational surprise in the space domain, deterring attacks, and preventing adversaries from utilizing space capabilities against the U.S. and the joint force. As operational surprises in space requires constant awareness, the USSF must continuously monitor the battlespace and enhance its ability to generate precise indications and warnings of hostile activities. To aid in the enhancement of space domain awareness, the USSF is funding programs such as the Deep Space Advanced Radar Capability, SILENTBARKER, and Space Data Fusion to provide a detailed understanding of the operational environment and prevent adversaries from launching undetected attacks on U.S. assets.

Additionally, to proactively deter counter-space strikes, the USSF is focused on developing resilient space capabilities that guarantee continuity of critical services to the joint force—including missile warning; communications; targeting; and Position, Navigation, and Timing. As airborne systems providing communications and targeting become increasingly vulnerable and as threat long-range precision strike systems proliferate, the joint force's dependency on space is significantly increasing, prompting the USSF to invest in fielding a proliferated multi-orbit missile warning network. This hybrid strategy complicates an adversary's attack options against U.S. space assets, bolsters the resiliency of a no-fail warning mission, and guarantees the availability of critical decision-making data across tactical, operational, and strategic levels. Further, the USSF is establishing a Space Futures Command to reoptimize for the pacing challenge, sustain its long-term competitive advantage, and to ensure the relevance of technical investments. This new command will execute the forward-looking force design process.

Ongoing and Advanced Cyber Threats Necessitate Enhancing Cyberspace Operations and Securing Systems, Networks, and Data

The DAF relies on key cyber capabilities to conduct and support operations across all domains and to enhance U.S. military advantages. Amidst broad transformations within the DAF, fortifying cyberspace operations and securing systems, networks, and data represent critical challenges that require immediate and focused attention. This commitment is underscored by initiatives to consolidate networks under a single service provider, the adoption of modern software development methodologies, and the use of cloud hosting for DAF systems. These strategic actions are essential for maintaining operational integrity and securing a competitive edge in cybersecurity practices. The DAF is committed to securing electromagnetic spectrum dominance and gaining an informational edge in highly contested environments. To achieve this, the DAF is investing in EA-37B Baseline 4 capabilities and advanced waveform development. Additionally, the DAF is focusing on enhancing mission resilience and adaptability through the 350th Spectrum Warfare Wing's rapid reprogramming initiatives to ensure effective electronic attack, support, and defense capabilities, as well as the Air Combat Command's efforts in Electromagnetic Battle Management. These investments are crucial for maintaining the effectiveness, survivability, and overall warfighting advantage of the DAF's warfighters, partners, and allies, thereby reinforcing the DAF's credibility in assurance and deterrence globally.

FORWARD-LOOKING INFORMATION

Furthermore, the DAF is focused on elevating Air Forces Cyber to an independent Service Component Command, underscoring the significance of the cyber mission within the joint force. The DAF will create a new Information Dominance Systems Center within Air Force Materiel Command to strengthen and elevate the DAF's focus on Command, Control, Communications, and Battle Management; Cyber; Electronic Warfare; Information Systems; and Enterprise Digital Infrastructure. Lastly, to guarantee continued success in deterring and defeating cyber threat, the DAF aims to expand technical career paths for officers and establish similar paths for enlisted Airmen and reintroduce warrant officers in Information Technology and Cybersecurity fields to sustain technical expertise and leadership in these rapidly evolving skill areas.



Tech. Sgt. Morgan Bainer, 121st Air Refueling Wing in-flight refueling specialist, controls the boom of a KC-135 Stratotanker during in-flight air refueling of a C-17 Globemaster in the skies over Columbus, OH. —Air National Guard Photo by Tech. Sgt. Alexis Wade

FORWARD-LOOKING INFORMATION

ASSESSMENT, MEASUREMENT, AND MITIGATION OF CLIMATE-RELATED RISKS

Climate change is a critical threat that is transforming the strategic, operational, and tactical environments with significant implications for U.S. national security and defense. It creates acute challenges in achieving air and space dominance as increasing temperatures and unpredictable extreme weather conditions exacerbate existing risks and create new security challenges. These challenges detrimentally impact the DAF's mission capabilities and its ability to train and operate effectively.

Pursuant to Executive Order (EO) 14008, the DAF developed a mitigation plan in response to climate risks, resulting in the culmination of the DAF's [Climate Action Plan](#), published in October 2022. This plan summarizes climate-related priorities, objectives, key results, and milestones that the DAF will undertake and strive to achieve to not only sustain the DAF's operational readiness in the face of climate change, but also to mitigate the DAF's contribution to climate change. This Plan aligns with the broader National Defense Strategy, the DoD Climate Adaptation Plan, and the DoD Climate Risk Analysis, and underscores the unique response and responsibilities of the DAF. The DAF's Climate Campaign Plan implements its Climate Action Plan. It defines how we will achieve our broader goal to preserve a more resilient, combat-credible force.

The DAF's Climate Action Plan establishes three priorities for the DAF to respond and adapt to climate challenges:

- 1. Maintain Air and Space Dominance in the Face of Climate Risks** – Focuses on modernizing infrastructure and facilities to act as a platform for continued air and space combat superiority.
- 2. Make Climate-Informed Decisions** – Emphasizes informing the workforce of climate challenges and responses, incorporating that information into strategy and planning, and considering climate-related factors in acquisition and supply chain decision-making processes.
- 3. Optimize Energy Use and Pursue Alternative Energy Sources** – Aims to improve the DAF's energy intensity by seeking efficiencies and adopting alternative energy sources to reduce the DAF's energy footprint.

MELISSA G. DALTON CONFIRMED AS UNDER SECRETARY OF THE AIR FORCE

On May 23, the U.S. Senate confirmed Ms. Melissa G. Dalton as the Under Secretary of the Air Force, positioning her as the Department's second highest-ranking civilian leader.

In this role, she will support the Secretary of the Air Force in overseeing the Department, including the organization, training, and equipping of both the Air Force and Space Force. Additionally, Ms. Dalton oversees an annual budget exceeding \$200 billion and is accountable for the welfare of nearly 700,000 military and civilian personnel.

"I'm excited to welcome Melissa to our 'One Team.' Her expertise and experience are what we need as we continue our efforts to address the security challenges we face in the defense of our country," said Secretary of the Air Force Frank Kendall. *"Her record of public service is impressive, including deployed duties in Afghanistan. The Department, our Airmen, our Guardians and military families will benefit from her efforts and advocacy."*



The U.S. Senate confirmed Melissa G. Dalton to be Under Secretary of the Air Force May 23, 2024, clearing the way for her to become the Department's second highest-ranking civilian leader. —USAF photo by Staff Sgt. Stuart Bright

FORWARD-LOOKING INFORMATION

The President, through EO 14057, *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability*, committed to achieve net-zero emissions economy-wide by 2050 and the DAF echoes this goal with its objective of operating DAF installations at net-zero emissions by 2046. The success of this mission will be accomplished through many specific and supportive key results and milestones along the way. These key results and milestones are laid out in the DAF's Climate Action Plan and reiterate that achieving such a goal is only possible by bringing the full breadth of the DAF's capabilities to the fore. Several notable results the DAF aims to achieve include:

Key Results for Maintaining Air and Space Dominance in the Face of Climate Risks

- » In addition to net-zero emissions for all installations by FY 2046, the DAF aims to achieve a 50% reduction in greenhouse gas emissions department-wide by 2033 (measured from a 2008 baseline).
- » Targeted investments to improve base resilience, starting with \$36 million in FY 2023 and increasing to \$100 million per year by FY 2027.
- » Energy Resilience Readiness Exercises executed at 35 installations by the end of FY 2027, with results used to inform installation investments and facilitate mission execution from energy-efficient and climate-resilient bases.

Key Results for Making Climate-Informed Decisions

- » Climate considerations integrated into DAF technical and continuing education curriculum by FY 2025.
- » Climate considerations, security language, and goals are incorporated in USAF and USSF concept development and USAF Major Commands and USSF Field Commands operational and campaign plans.
- » Potential effects and security implications of climate change included in engagements with allies and partner nations.

Key Results for Optimizing Energy Use and Pursuing Alternative Energy Sources

- » Operational energy intensity of DAF flying missions increased 5% by FY 2027 and 7.5% by FY 2032 through standardized use of aircraft drag reduction technologies, modern software scheduling tools, and enhanced engine sustainment practices.
- » 100% carbon pollution-free electricity on a net annual basis by FY 2030, including 50% 24/7 carbon pollution-free electricity.
- » 100% zero emission non-tactical vehicles by FY 2035, including 100% zero emission light-duty vehicle acquisitions by FY 2027 and aircraft support equipment by FY 2032.



A B-52H Stratofortress takes off during exercise Prairie Vigilance/Bayou Vigilance (PV/BV) 24-4 at Minot Air Force Base, ND. Training operations like PV/BV ensure that Air Force Global Strike Command maintains a credible strategic capability that enhances the deterrence of threats to the U.S. and its allies and partners.
—USAF photo by Airman 1st Class Alyssa Bankston



FINANCIAL SECTION

F-16 Fighting Falcons with the USAF Air Demonstration Squadron, the Thunderbirds, perform during the Speed of Sound Airshow at Rosecrans Air National Guard Base in St. Joseph, MO. Hosted by the 139th Airlift Wing and city of St. Joseph, the event was a chance to thank the community and approximately 50,000 attendees for their support. —U.S. Air National Guard photo by Master Sgt. Patrick Evenson

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



8 November 2024

It is my privilege to join Secretary Kendall in presenting the Department of the Air Force's Fiscal Year 2024 Agency Financial Report. Detailed within the pages of this report are insights into the Department of the Air Force's financial performance, as well as both realized and ongoing enhancements to our business processes and systems environment.

After becoming the first military service to fully close our Fund Balance with Treasury material weakness last year, we set out to achieve similar firsts in Fiscal Year 2024. Our teams worked tirelessly to develop solutions to address some of our most impactful, cross-cutting material weaknesses and make progress against improving our current 'disclaimer of opinion' from the auditor.

One of the most impactful efforts was our General Fund's Military Equipment material weakness, which our team worked diligently to remediate. Sustaining controls implemented in previous fiscal years and refining and developing additional controls over the valuation of the acquisition and modification of assets helped position the Military Equipment material weakness for a successful downgrade. This effort will push the Department of the Air Force closer to a clean audit opinion with the two most significant General Fund balance sheet accounts auditable and provide real-world impacts through enhanced asset accountability.

The Working Capital Fund set its sights on continuing the Department of Defense's efforts to downgrade its Fund Balance with Treasury material weakness. Leveraging lessons learned from our General Fund, the Working Capital Fund engaged with the Auditor early and often to deliver key oversight controls for testing and communicated current and future state control environments. The team's efforts have positioned the Department of the Air Force to, yet again, achieve another significant Fund Balance with Treasury milestone.

The annual audit continues to reveal that our data and systems are among our greatest assets and biggest challenges. The Department of the Air Force is continuing to improve our ability to deliver quality, integrated data to leadership while simultaneously working to modernize to meet underlying cyber and financial reporting requirements.

In echoing Secretary Kendall, the Department of the Air Force fully appreciates Congress further prioritizing the audit through the passing of the 2024 *National Defense Authorization Act*. We remain committed to auditability by the timelines established in our Audit Roadmaps, which align with the December 31, 2028 target date for the entire Department of Defense to achieve a clean audit opinion. I am proud of the work done and the milestones achieved this year. Our response to the audit's biggest challenges is helping the Department of the Air Force throughout the organization. We are optimizing our workforce by replacing time-consuming, manual processes with automated solutions; enhancing our readiness by improving the accuracy of amounts, locations, and conditions of assets within our systems; and improving our information technology landscape by moving toward more tightly integrated systems that are built to achieve the requirements of today and the scalability needs of tomorrow.



Carlos Rodgers
(Acting) Assistant Secretary of the Air Force
(Financial Management and Comptroller)



DEPARTMENT OF THE AIR FORCE GENERAL FUND

(UNAUDITED)

The DAF GF principal statements and related notes summarize financial information for the DAF GF for the FY ended September 30, 2024 and are presented on a comparative basis with information restated for the FY ended September 30, 2023. The USSF is reported as part of the DAF GF's financial statements. 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 Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF GF's principal statements:

CONSOLIDATED BALANCE SHEETS

» The Consolidated Balance Sheets, as of September 30, 2024 and 2023, represent those resources owned or managed by the DAF GF, which are available to provide future economic benefits (assets), amounts owed by the DAF GF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF GF, comprising the difference (net position).

CONSOLIDATED STATEMENTS OF NET COST

» The Consolidated Statements of Net Cost present the net cost of the DAF GF's operations for the FYs ended September 30, 2024 and 2023. The DAF GF's net cost of operations includes the gross costs incurred by the DAF GF less any exchange revenue earned from DAF GF activities.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

» The Consolidated Statements of Changes in Net Position present the change in the DAF GF's net position resulting from the net cost of DAF GF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FYs ended September 30, 2024 and 2023.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

» The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF GF during FYs 2024 and 2023, the status of these resources as of September 30, 2024 and 2023, and the net outlays of budgetary resources for the FYs ended September 30, 2024 and 2023.



A pyrotechnic display is triggered behind an F-16 Fighting Falcon from the USAF Air Demonstration Squadron, the Thunderbirds, during the Speed of Sound Airshow at Rosecrans Air National Guard Base, MO. The airshow committee estimated approximately 50,000 people attended the event. —U.S. Air National Guard photo by Master Sgt. Patrick Evenson

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 CONSOLIDATED (UNAUDITED)	RESTATED 2023 CONSOLIDATED (UNAUDITED)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 200,376,590	\$ 184,069,128
Investments (Note 5)	7	7
Accounts Receivable, Net (Note 6)	936,177	1,089,285
Other Assets (Note 10)	126,784	164,137
Total Intragovernmental	\$ 201,439,558	\$ 185,322,557
Other than Intragovernmental		
Cash and Other Monetary Assets (Note 4)	\$ 81,422	\$ 94,020
Accounts Receivable, Net (Note 6)	264,032	557,521
Operating Materials and Supplies, Net (Note 8)	72,774,006	71,531,473
General Property, Plant, and Equipment, Net (Note 9)	165,879,855	169,713,583
Advances and Prepayments (Note 10)	5,515,563	9,221,037
Total Other than Intragovernmental	\$ 244,514,878	\$ 251,117,634
Total Assets	\$ 445,954,436	\$ 436,440,191
Heritage Assets and Stewardship Land (Note 9)		
LIABILITIES		
Intragovernmental		
Accounts Payable	\$ 3,796,311	\$ 3,579,263
Advances from Others and Deferred Revenue (Note 15)	2,961,272	2,572,231
Other Liabilities (Note 13) and (Note 15)	1,377,777	1,068,390
Total Intragovernmental	\$ 8,135,360	\$ 7,219,884
Other than Intragovernmental		
Accounts Payable	\$ 7,374,062	\$ 8,435,091
Federal Employee and Veteran Benefits Payable (Note 13)	8,866,079	6,468,407
Pensions, Other Post-Employment, and Veterans Benefits Payable (Note 13)	887,926	896,748
Environmental and Disposal Liabilities (Note 14)	16,511,911	15,108,941
Advances from Others and Deferred Revenue (Note 15)	509,739	430,549
Other Liabilities (Note 15) , (Note 16) , and (Note 17)	7,293,371	10,476,506
Total Other than Intragovernmental	\$ 41,443,088	\$ 41,816,242
Total Liabilities	\$ 49,578,448	\$ 49,036,126
Commitments and Contingencies (Note 17)		

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED BALANCE SHEETS CONTINUED

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 CONSOLIDATED <i>(UNAUDITED)</i>	RESTATED 2023 CONSOLIDATED <i>(UNAUDITED)</i>
NET POSITION		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 181,335,641	\$ 166,733,181
Total Unexpended Appropriations (Consolidated)	\$ 181,335,641	\$ 166,733,181
Cumulative Results of Operations - Funds from Dedicated Collections <i>(Note 18)</i>	42,863	41,018
Cumulative Results of Operations - Funds Other than Dedicated Collections	214,997,484	220,629,866
Total Cumulative Results of Operations (Consolidated)	\$ 215,040,347	\$ 220,670,884
Total Net Position	\$ 396,375,988	\$ 387,404,065
Total Liabilities and Net Position	\$ 445,954,436	\$ 436,440,191

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED STATEMENTS OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 CONSOLIDATED <i>(UNAUDITED)</i>	RESTATED 2023 CONSOLIDATED <i>(UNAUDITED)</i>
PROGRAM COSTS		
Military Personnel	\$ 48,537,792	\$ 46,830,124
Operations, Readiness, & Support	86,449,332	76,783,699
Procurement	63,705,889	64,993,023
Research, Development, Test, & Evaluation	63,156,568	60,290,073
Family Housing & Military Construction	4,877,577	4,778,947
Gross Costs	\$ 266,727,158	\$ 253,675,866
(Less: Earned Revenue)	(14,385,811)	(12,013,724)
Net Cost of Operations	\$ 252,341,347	\$ 241,662,142

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 CONSOLIDATED <i>(UNAUDITED)</i>	RESTATED 2023 CONSOLIDATED <i>(UNAUDITED)</i>
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - Note 18)	\$ 166,733,181	\$ 155,581,068
Prior Period Adjustments:		
Corrections of Errors (+/-) (Note 27)	0	(183,532)
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - Note 18)	\$ 166,733,181	\$ 155,397,536
Appropriations Received	261,879,959	249,488,026
Appropriations Transferred In/Out	2,097,587	1,141,329
Other Adjustments (+/-)	(3,789,426)	(3,389,205)
Appropriations Used	(245,585,660)	(235,904,505)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - Note 18)	\$ 14,602,460	\$ 11,335,645
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - Note 18)	\$ 181,335,641	\$ 166,733,181
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 220,670,884	\$ 205,329,603
Prior Period Adjustments:		
Changes in Accounting Principles (+/-) (Note 8)	0	(729,751)
Corrections of Errors (+/-) (Note 27)	0	21,100,876
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - Note 18)	\$ 220,670,884	\$ 225,700,728
Budgetary Financing Sources:		
Other Adjustments (+/-)	10,985	(3,877)
Appropriations Used	245,585,660	235,904,505
Non-Exchange Revenue	50,408	25,006
Donations and Forfeitures of Cash Equivalents	3,111	5,668
Transfers In/Out without Reimbursement	67,097	(769,060)
Imputed Financing	1,462,476	1,259,576
Other	(468,927)	210,480
Total Budgetary Financing Sources	\$ 246,710,810	\$ 236,632,298
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - Note 18)	\$ 252,341,347	\$ 241,662,142
Net Change in Cumulative Results of Operations	\$ (5,630,537)	\$ (5,029,844)
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - Note 18)	\$ 215,040,347	\$ 220,670,884
Net Position	\$ 396,375,988	\$ 387,404,065

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE GENERAL FUND

CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 <small>(AMOUNTS IN THOUSANDS)</small>	2024 CONSOLIDATED <small>(UNAUDITED)</small>	2023 CONSOLIDATED <small>(UNAUDITED)</small>
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 21)</i>	\$ 60,482,206	\$ 52,079,833
Appropriations (Discretionary and Mandatory)	262,874,368	249,752,708
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	13,305,942	10,556,327
Total Budgetary Resources	\$ 336,662,516	\$ 312,388,868
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	\$ 284,465,746	\$ 272,350,492
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	46,439,230	34,871,160
Exempt from Apportionment, Unexpired Accounts	14,287	13,277
Unapportioned, Unexpired Accounts	6,348	6,859
Unexpired Unobligated Balance, End of Year	\$ 46,459,865	\$ 34,891,296
Expired Unobligated Balance, End of Year	5,736,905	5,147,080
Unobligated Balance, End of Year (Total)	\$ 52,196,770	\$ 40,038,376
Total Budgetary Resources	\$ 336,662,516	\$ 312,388,868
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 243,120,084	\$ 226,306,646
Distributed Offsetting Receipts (+/-)	(204,113)	55,689
Agency Outlays, Net (Discretionary and Mandatory)	\$ 242,915,971	\$ 226,362,335

The accompanying notes are an integral part of these statements.

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.

Click Each Note for Quick Access (Online Version Only)

NOTE 1 <i>Summary of Significant Accounting Policies</i>	NOTE 2 <i>Non-Entity Assets</i>	NOTE 3 <i>Fund Balance with Treasury</i>	NOTE 4 <i>Cash and Other Monetary Assets</i>
NOTE 5 <i>Investments, Net</i>	NOTE 6 <i>Accounts Receivable, Net</i>	NOTE 7 <i>Loans Receivable, Net and Loan Guarantee Liabilities</i>	NOTE 8 <i>Operating Materials and Supplies, Net</i>
NOTE 9 <i>General Property, Plant, and Equipment, Net</i>	NOTE 10 <i>Other Assets</i>	NOTE 11 <i>Liabilities Not Covered by Budgetary Resources</i>	NOTE 12 <i>Debt</i>
NOTE 13 <i>Federal Employee and Veteran Benefits Payable</i>	NOTE 14 <i>Environmental and Disposal Liabilities</i>	NOTE 15 <i>Other Liabilities</i>	NOTE 16 <i>Leases</i>
NOTE 17 <i>Commitments and Contingencies</i>	NOTE 18 <i>Funds from Dedicated Collections</i>	NOTE 19 <i>Disclosures Related to the Statement of Net Cost</i>	NOTE 20 <i>Disclosures Related to the Statement of Changes in Net Position</i>
NOTE 21 <i>Disclosures Related to the Statement of Budgetary Resources</i>	NOTE 22 <i>Disclosures Related to Incidental Custodial Collections</i>	NOTE 23 <i>Fiduciary Activities</i>	NOTE 24 <i>Reconciliation of Net Cost to Net Budgetary Outlays</i>
NOTE 25 <i>Public-Private Partnerships</i>	NOTE 26 <i>Disclosure Entities and Related Parties</i>	NOTE 27 <i>Restatements</i>	NOTE 28 <i>Subsequent Events</i>

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters, USAF Field Organizations, and USSF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF and for the USSF, under the guidance and direction of the Secretary of Defense.

The USAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the USAF and the preparation of its forces for military operations. The USAF Field Organizations are comprised of the Major Commands, Direct Reporting Units (DRUs), Field Operating Agencies, and their subordinate elements that carry out the mission of the USAF.

The USSF is led by the Chief of Space Operations who is responsible for the efficiency of the USSF and the preparation of its forces for military operations. The USSF Field Organizations are comprised of the Field Commands, DRUs, and their subordinates that carry out the mission of the USSF.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. The DAF GF includes financial information for both the USAF and the USSF; however, separate appropriations were established to fund USSF activity. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF GF. As a result, it does not disclose information related to the DAF WCF.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF GF may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

B. MISSION OF THE REPORTING ENTITY

The DAF 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 USAF. As part of the FY 2020 *National Defense Authorization Act* (NDAA), the USSF became the sixth branch of the U.S. Armed Forces, established as an independent Military Service within the DAF. The DAF's mission is comprised of the USAF mission and the USSF mission.

The USAF's mission statement is: *To fly, fight, win . . . airpower anytime, anywhere*. The USSF's mission statement is: *Secure our Nation's interests in, from, and to space*.

C. BASIS OF PRESENTATION

These comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF GF, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The accompanying financial statements account for all resources for which the DAF GF is responsible, unless otherwise noted. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. To the extent possible, the financial statements have been prepared from the accounting records of the DAF GF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) as described by the Federal Accounting Standards Advisory Board (FASAB).

The DAF GF is unable to fully implement all elements of GAAP and OMB Circular A-136 due to the limitations of financial and non-financial management processes and systems that support the financial statements. The DAF GF derives reported values and information for major asset and liability categories largely from non-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The DAF GF continues to implement process and system improvements addressing these limitations.

The DAF GF is involved in various programs whereby procurement contracts are used to buy goods and services for multiple Federal Government entities. The DAF GF determined its accounting for such contracts does not always reflect the specific DAF GF allocation of contract costs. Collections, obligations, and outlays of the DAF GF are misstated by the difference between the DAF GF expenditures and the DAF GF actual allocations of contract costs. The DAF GF cannot currently estimate the amount of misstatement and has concluded it may be material.

D. BASIS OF ACCOUNTING

The DAF GF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF GF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), non-financial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and Environmental and Disposal Liabilities (E&DL). Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DAF GF 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 DAF GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF GF is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF GF's financial statements; however, the DAF GF is currently unable to determine the full impact these pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1. Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Issued on December 23, 2014. Effective Date: Reporting periods beginning after September 30, 2017.

SFFAS 47 requires Federal Government entities to analyze their relationships with related entities to determine which, if any, entities should be reported with the reporting entity on a consolidated basis, those that should be disclosed as inter-related with the reporting entity, and those that should be disclosed by the reporting entity as related parties. Currently, the DAF GF's SFFAS 47 analysis is not complete. The consolidation decisions related to that analysis, when complete, could have a material impact on the DAF GF's financial statements.

2. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Issued on January 27, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DAF GF plans to utilize deemed cost to value beginning balances for Operating Materials and Supplies (OM&S), as permitted by SFFAS 48. The DAF GF has valued some of its OM&S using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for OM&S in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to the OM&S line item in accordance with SFFAS 48.

3. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Issued on April 27, 2016. Effective Date: Reporting periods beginning after September 30, 2018.

The DAF GF has begun to evaluate arrangements and transactions for Public-Private Partnership (P3) criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49 but has not completed a full analysis of all arrangements.

4. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and SFFAS 23, and Rescinding SFFAS 35*. Issued on August 4, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF GF has two categories within its General Property, Plant & Equipment (PP&E) Line item, Military Equipment and Other. In accordance with SFFAS 50, the DAF GF has made an unreserved assertion for the Military Equipment portion (inclusive of Military Equipment – Aircraft and Modifications, Satellites, Mine-Resistant Ambush Protected Vehicles, and Pods, Military Equipment Construction-in-Progress (CIP) – Aircraft and Modifications, and Satellites) as of October 1, 2023 as disclosed in [Note 9, General Property, Plant, and Equipment, Net](#). The DAF GF established beginning balances for Military Equipment using the estimated historical cost method allowed under SFFAS 50, whereby reasonable estimates may be based on documents including, but not limited to, contracts, budgets, appropriations, and engineering documents. Since October 1, 2023, the DAF GF has recorded new Military Equipment assets and capitalizable modifications to existing Military Equipment assets using historical cost in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*. The DAF GF is in the process of implementing SFFAS 50 for the General PP&E Other category.

5. SFFAS 54, *Leases*. Issued on April 17, 2018. Effective Date: Reporting periods beginning after September 30, 2023. Early adoption is not permitted.

The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*. Issued on June 19, 2020. Early adoption is not permitted. For additional information, see SFFAS 60, *Omnibus Amendments 2021: Lease-Related Topics*; SFFAS 61, *Omnibus Amendments 2023: Leases-Related Topics II*; Technical Release 20, *Implementation Guidance for Leases*; and Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*. Starting in FY 2024, the DAF GF is required to report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements, when the DAF GF has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement. The DAF GF is still implementing processes to identify and value right-to-use assets and lease liabilities.

6. SFFAS 59, *Accounting and Reporting of Government Land*. Issued on July 30, 2021. Effective Date:
 - » Paragraphs 1 – 3: Scope. Reporting periods beginning after September 30, 2021. Early adoption is not permitted.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- » Paragraphs 6 – 12: Required Supplementary Information Presentation. Reporting periods beginning after September 30, 2021, through periods beginning after September 2024. Early adoption is not permitted.
 - » Paragraphs 4 – 14: Basic Presentation. Reporting periods beginning after September 30, 2025. Early adoption is not permitted.
7. SFFAS 60, *Omnibus Amendments 2021: Lease-Related Topics*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.
 8. SFFAS 61, *Omnibus Amendments 2023: Lease-Related Topics II*. Issued on April 7, 2023. Effective Date: Reporting periods beginning after September 30, 2023.
 9. SFFAS 62, *Transitional Amendment to SFFAS 54*. Issued on November 30, 2023. Effective Date: Reporting periods beginning after September 30, 2023.
 10. SFFAS 63, *Omnibus Amendments 2024-1, Amending SFFAS 38, 49, and Technical Bulletin 2011-1*. Issued on April 12, 2024. Effective Date: Upon issuance.
 11. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective Date: Upon issuance.
 12. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective Date: Upon issuance.
 13. Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.
As this Technical Release serves as implementation guidance for SFFAS 50, with the exception of the Military Equipment portion, the DAF GF is in the process of adopting this Technical Release.
 14. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.
As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, with the exception of the Military Equipment portion of General PP&E, the DAF GF is in the process of adopting this Technical Release.
 15. Technical Release 20, *Implementation Guide for Leases*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.
 16. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.
 17. Technical Release 22, *Leases Implementation Guidance Updates*. Issued on October 12, 2023. Effective Date: Reporting periods beginning after September 30, 2023.
 18. Technical Release 23, *Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21*. Issued on July 22, 2024. Effective Date: Reporting periods beginning after September 30, 2023.
 19. Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.
This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. With the exception of the Military Equipment portion, the DAF GF is in the process of adopting this Staff Implementation Guidance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

20. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.
21. Interpretation 10, *Clarification of Non-Federal Non-Entity FBwT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. Issued on May 10, 2021. Effective Date: Upon issuance.

As stated above, the DAF GF has not recorded all transactions consistent with GAAP, and as such, these transactions are believed to be materially misstated in the financial statements. These transactions represent accounting errors recorded in current and prior years that impact the current year financial statements, and that have not been recorded and corrected in accordance with GAAP. The DAF GF continues to implement process and system improvements addressing these limitations.

E. ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Federal Entity Reporting Requirements For The Financial Report Of The United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. 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. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF GF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF GF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF GF. In accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*, the DAF GF recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB Circular A-136, including: 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* (FECA); and 3) losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF GF's financial statements.

For additional information, refer to [Note 19, Disclosures Related to the Statement of Net Cost](#).

F. NON-ENTITY ASSETS

The DAF GF classifies assets as either Entity or Non-Entity. Entity Assets are those that the DAF GF has authority to use for its operations. Non-Entity Assets are those held by the DAF GF but not available for use in its normal operations. Non-Entity Assets are offset by liabilities to third parties and have no impact on net position. The DAF GF combines its Entity and Non-Entity Assets on the Balance Sheet and discloses its Non-Entity Assets in the notes.

For additional information, refer to [Note 2, Non-Entity Assets](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) represents the aggregate amount of the DAF GF's budget spending authority available to pay current liabilities and finance future authorized purchases. The DAF GF's monetary resources of collections and disbursements are maintained in Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, the U.S. Army Corps of Engineers, and the Department of State's financial service centers currently process most of the DAF GF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The model of using the DAF GF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF GF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF GF's target end state of executing payments and collections directly between the DAF GF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF GF to achieve FBWT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

FBWT is an asset of the DAF GF and a liability of the U.S. Government GF. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the DAF GF and liabilities of the U.S. Government GF. In both cases, the amounts represent commitments by the Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

When the DAF GF seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, the Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, in case of a budget deficit.

In addition, the DAF GF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions in the applicable FBWT account.

For additional information, refer to [Note 3, Fund Balance with Treasury](#).

H. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of the DAF GF including coins, 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 Foreign Currency exchanged for U.S. dollars and Foreign Currency received as payment for goods or services. Foreign Currency is valued using the U.S. Treasury prevailing rate of exchange. The TFM Volume 1, Part 2, Chapter 3200, *Foreign Currency Accounting and Reporting*, provides guidance for accounting and reporting Foreign Currency.

The DAF GF conducts a significant portion of operations overseas. Congress established a special appropriations 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 operations and maintenance; and 5) family housing construction. The gains and losses are calculated as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of each FY. Foreign Currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The DAF GF does not separately identify currency fluctuation transactions.

For additional information, refer to [Note 2, Non-Entity Assets](#), and [Note 4, Cash and Other Monetary Assets](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. INVESTMENTS

The DAF GF reports investments in 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 DAF GF's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, no provision is made for unrealized gains or losses on these securities.

For additional information, refer to [Note 5, Investments, Net](#).

J. ACCOUNTS RECEIVABLE

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF GF records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal doubtful accounts (estimated uncollectible amounts) are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF GF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the Business Rules published in Appendix 5 of the TFM Volume 1, Part 2, Chapter 4700.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities*, the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables. For individual account analysis, account balances are individually analyzed to determine the loss allowance. For group analysis, receivables are separated into groups of homogeneous accounts with similar risk characteristics. To allow for both requirements, a group analysis is performed in determining the allowance percentages by aging categories applied to delinquent balances per the *Treasury Report on Receivables* or other sources of public receivable information. The allowance percentages by aging categories are based on three years of actual collection experience. In accordance with the DoD FMR Volume 4, Chapter 3, *Receivables*, a secondary analysis may be performed on individual receivable balances greater than \$100.0 thousand. The amounts determined to be uncollectible as the result of the analyses are recorded as an allowance.

For additional information, refer to [Note 6, Accounts Receivable, Net](#).

K. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

The FY 1996 NDAA contains authorities for the Military Housing Privatization Initiative (MHPI). The NDAA includes a series of authorities that allow the DAF GF to work with the private sector to build, renovate, and sustain military housing. The goals of the program are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers. Other statutory authorities for this initiative include 10 U.S. Code (U.S.C.) § 2873, 10 U.S.C. § 2875, and 10 U.S.C. § 2878. The DAF GF exercised MHPI authorities including direct loans and loan guarantees (10 U.S.C. §§ 2873 and 2883), differential lease payments (10 U.S.C. §§ 2877 and 2883), equity investments (10 U.S.C. §§ 2875 and 2883), and conveyance or leasing of land and/or housing and other facilities (10 U.S.C. § 2878).

The DAF GF entered into a competitive process with the private sector with a goal to provide its uniformed service members and their families access to safe, secure, quality, affordable, and well-maintained housing in a military community where they choose to live. The projects are non-Federal Acquisition Regulation (FAR) real estate transactions with project owners. The project owners obtain financing, provide required equity, develop,

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

own, and operate the rental housing development for a period of 50 years. The expected life of each MHPI agreement corresponds to the duration of the ground lease. The duration of the ground lease was established through negotiation with the project owner and was considered to be the minimum duration required to ensure project success.

The DAF GF predominately elected to enter into MHPI P3s by entering into long-term leases with private entities, conveying existing housing and other real estate assets, and offering direct loans for 26 projects, of which five included a limited loan guarantee.

As required by SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

As discussed within [Note 1.D., Basis of Accounting](#), the DAF GF has begun implementing SFFAS 49, but has not completed a full analysis of all arrangements and transactions for P3 criteria as of September 30, 2024.

For additional information, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#).

L. OPERATING MATERIALS AND SUPPLIES, NET

The DAF GF manages only military or government-specific OM&S under normal conditions. Items commonly used in, and available from, the commercial sector are not included in the DAF GF's OM&S management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF GF holds OM&S based on military need and support for contingencies.

The DAF GF uses the consumption method of accounting for select categories of OM&S. The DAF GF uses the purchases method of accounting for the two assessable units of Cruise Missiles and Aerial Targets/Drones. This method of accounting was adopted based on the significance analysis criteria. Newly acquired in-transit OM&S is not reported as part of the DAF GF's OM&S balance until it is accepted at the base and not when title transfers.

Additionally, the DAF GF records Excess, Obsolete, and Unserviceable (EOU) OM&S at a zero Net Realizable Value (NRV) in accordance with the guidance in the DoD FMR Volume 4, Chapter 4, *Inventory and Related Property*. To date, the DAF GF has not confirmed any proceeds received from the disposal of these EOU OM&S assets and, therefore, the NRV is currently reported as zero.

Currently, the DAF GF cannot disclose an estimated Allowance for Repair as required by SFFAS 3. The DAF GF is actively working to implement corrective actions to properly report these amounts.

The DAF GF, when applicable, will continue to adopt SFFAS 48 permitting alternative methods in establishing opening balances. For additional information, refer to [Note 8, Operating Materials and Supplies, Net](#).

M. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF GF records General PP&E at the estimated historical cost. In FY 2018, the DAF GF applied the deemed cost alternative valuation method to the opening balance of General PP&E Land in accordance with SFFAS 50 and wrote off its recorded General PP&E Land value. The DAF GF reported \$0.0 opening balance for General PP&E Land in FY 2021 and will expense General PP&E Land acquisitions in future periods.

The DAF GF has established a deemed cost opening balance and unreserved assertion for its Military Equipment portion of the General PP&E line in accordance with SFFAS 50 as of October 1, 2023. To establish the Military Equipment opening balances, the DAF GF accumulated information related to program funding and associated equipment, equipment useful lives, program acquisitions, and disposals. Opening balances for Military Equipment were then established using expenditure, acquisition, and disposal information. Subsequent Military Equipment procurements and capital improvements have been valued in compliance with SFFAS 6.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DAF GF, when applicable, will continue to implement SFFAS 50 to establish opening balances within the General PP&E Other category.

Through the execution of recurring internal control procedures, the DAF GF identified activity in FY 2024 that required prior period adjustments. As such, the DAF GF restated prior year balances which resulted in an impact to General PP&E and Cumulative Results of Operations on the Balance Sheet, and Cumulative Results of Operations on the Statement of Changes in Net Position. For additional information, refer to [Note 27, Restatements](#).

The DAF GF capitalizes General PP&E acquisitions per SFFAS 6 and DoD FMR Volume 4, Chapters 24, 25, and 27. The capitalization threshold for General Equipment (including Military Equipment) and Real Property is \$1.0 million. The capitalization threshold for Internal Use Software is \$250.0 thousand. These capitalization thresholds apply to asset acquisitions and modifications/improvements placed into service after September 30, 2013. In accordance with DoD FMR Volume 4, Chapters 24 and 25, the DAF GF elected to retroactively apply the current capitalization thresholds for Real Property and General Equipment of \$1.0 million. The DAF GF does not retroactively apply the capitalization threshold of \$1.0 million to Real Property that was capitalized and recently transferred to the DAF GF from other agencies. The DAF GF depreciates all General PP&E on a straight-line basis.

The DAF GF provides Government-owned or leased General PP&E (also known as GFE) to contractors for performing work within a contract for which the DAF GF must recognize the GFE for accountability and financial reporting purposes.

Contractor-Acquired Property is General PP&E acquired by a contractor on behalf of the DAF GF for performing work within a contract where the Government will ultimately hold the title to the General PP&E. If the Contractor-Acquired Property has a useful life of at least two years and the value of Contractor-Acquired Property meets or exceeds the DAF GF's capitalization threshold, GAAP requires the Contractor-Acquired Property to be reported on the DAF GF's Balance Sheet when title passes to the DAF GF or when the General PP&E is delivered to the DAF GF.

Additionally, the DAF GF maintains Heritage Assets and Stewardship Land. Heritage Assets consists of assets of historic, natural, cultural, educational, architectural, or artistic significance. Stewardship Land represents land and land rights owned by the DAF GF but not acquired for or in connection with General PP&E.

For additional information, refer to [Note 9, General Property, Plant, and Equipment, Net](#).

N. OTHER ASSETS

The DAF GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF GF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the FAR, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment 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. Contract financing payments are now recorded compliant with GAAP but historical balances in Advances/Other Assets may not be and require further research.

The Defense FAR Supplement authorizes progress payments based on a percentage or stage of completion. Contract financing payments should not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, refer to [Note 10, Other Assets](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. LEASES

Lease payments for the rental of equipment and operating facilities are classified as either intragovernmental, short-term, or right-to-use lease asset. When a lease substantially transfers all the benefits and risks of ownership to the DAF GF, the DAF GF records the applicable asset as though it was purchased, with an offsetting liability, and records depreciation on the asset. The DAF GF records the asset and the liability at the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor). 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 DAF GF, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for a payment of funds.

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47 whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A right-to-use lease asset deemed "operating leases" for budgetary treatment does not substantially transfer all the benefits and risk of ownership to the DAF GF. Payments for right-to-use lease asset deemed operating leases are expensed over the lease term. Office space leases entered into by the DAF GF are the largest component of leases. As of September 30, 2024, the DAF GF has not implemented SFFAS 54 and is still implementing processes to identify and value right-to-use assets and lease liabilities.

For additional information, refer to [Note 16, Leases](#).

P. ACCOUNTS PAYABLE

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF GF.

Q. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources because of past transactions or events; however, no liability can be paid by the DAF GF without proper budget authority. Liabilities Covered by Budgetary Resources are appropriated funds for which funding is available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to [Note 11, Liabilities Not Covered by Budgetary Resources](#).

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the DAF GF's assets or operations. Consistent with SFFAS 5 and 6, recognition of an anticipated environmental liability begins when the asset is placed in service.

For additional information, refer to [Note 14, Environmental and Disposal Liabilities](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

S. OTHER LIABILITIES

Other Liabilities may be federal or non-federal. Such liabilities include Advances from Others and Deferred Revenue, Disbursing Officer Cash, Liabilities for Non-Entity Assets, Other Liabilities, Liability for Non-Fiduciary Deposit Funds and Undeposited Collections, Liability for Clearing Accounts, FECA Reimbursement to the Department of Labor, Employer Contributions and Payroll Taxes, Accrued Funded Payroll and Leave, Withholdings Payable, Contract Holdbacks, and Contingent Liabilities.

For Contract Holdbacks, The Office of the Secretary of Defense (OSD) issued a policy memorandum in September 2019 directing DoD components to recognize Contract Holdbacks expected to be paid within one year of the balance sheet date as Accounts Payable, and to recognize Contract Holdbacks expected to be paid after one year of the balance sheet date as Other Liabilities. Due to system limitations, the DAF GF is unable to distinguish Current from Non-Current Contract Holdbacks and reported both Current and Non-Current Contract Holdbacks as Other Liabilities as of September 30, 2024. As such, the DAF GF does not record Contract Holdbacks in accordance with GAAP.

For additional information, refer to [Note 15, Other Liabilities](#).

T. COMMITMENTS AND CONTINGENCIES

The DAF GF recognizes Contingent Liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

For additional information, refer to [Note 17, Commitments and Contingencies](#).

U. FEDERAL EMPLOYEE AND VETERAN BENEFITS

As an employer entity, the DAF GF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other post-employment benefit plans including health and life insurance plans. However, as the administering entity, the Office of Personnel Management is responsible for executing the benefit plans including accounting for plan assets, liabilities, and associated gains and losses. Accordingly, the DAF GF does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

For additional information, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#), and [Note 19, Disclosures Related to the Statement of Net Cost](#).

V. REVENUES AND OTHER FINANCING SOURCES

As a component of the Government-wide reporting entity, the DAF GF is subject to the federal budget process, which involves appropriations provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD and Government-wide financial reports.

The DAF GF's budgetary resources reflect past congressional action and enable the DAF GF to incur budgetary obligations but are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, the Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DAF GF receives congressional appropriations as financing sources for general funds, trust funds, and special funds. The DAF GF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General Funds are obtained through collections not earmarked by law for specific purposes, the proceeds of general borrowing, and appropriations. The DAF GF appropriations cover costs that include personnel, operation and maintenance, research and development, procurement, and military construction.

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 DAF GF recognizes revenue resulting from costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is the DAF GF's standard policy for services provided as required by OMB Circular A-25, *User Charges*. In some instances, revenue is recognized when bills are issued.

Trust funds contain receipts and expenditures of funds held in trust by the Federal 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 and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues, are required by statute to be used for designated activities, benefits, or purposes, and remain available over time. In accordance with SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS 43, *Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds*, the DAF GF separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections. For additional information, refer to [Note 18, Funds from Dedicated Collections](#).

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF GF recognizes non-exchange 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 DAF GF non-exchange revenue consists of interest, penalty, and administrative fees on military and civilian employee and contractor receivables, all of which are reasonably estimable. Collection of these non-exchange revenues is probable, apart from instances when settlements are negotiated for delinquent receivables that includes a corresponding reduction of the associated interest, penalty, and administrative fees.

The DAF GF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in [Note 24, Reconciliation of Net Cost to Net Budgetary Outlays](#). 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.

W. RECOGNITION OF EXPENSES

The DAF GF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items including, but not limited to, payroll expense. Some accounts such as civilian pay, military pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

X. BUDGETARY RESOURCES

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. The following budgetary terms are commonly used:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- » An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- » Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- » An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- » Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.
- » Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.
- » Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

Y. TREATIES FOR USE OF FOREIGN BASES

The DAF GF has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The DAF GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. In accordance with the DoD FMR Volume 4, Chapter 24, *Real Property*, the DAF GF reports these assets on its Balance Sheet when an agreement exists between the U.S. and the host nation/foreign government and the agreement conveys a right to construct and operate facilities; the DAF GF funded the asset's acquisition (i.e., purchase and construction) and/or capital improvements; the asset meets capital General PP&E useful life and threshold criteria; and the asset is used in operations. Treaty terms generally allow the DAF GF continued use of these properties until the treaty expires. 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 non-retrievable capital assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Liabilities for these settlements that might be applicable in the future are not accrued until time of settlement.

For additional information, refer to [Note 9, General Property, Plant, and Equipment, Net](#), and [Note 14, Environmental and Disposal Liabilities](#).

Z. USE OF ESTIMATES

The DAF GF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as E&DL, Contingent Legal Liabilities, accrual of capitalized costs for CIP (as incurred capitalizable costs are compared to vendor completion percentages), and actuarial liabilities related to workers' compensation.

AA. PARENT-CHILD REPORTING

The DAF GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity and 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. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the net cost of operations, changes in net position, and budgetary resources 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 Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DAF GF receives allocation transfers, as a child entity, for EOP (Foreign Military Sales/Military Assistance Program) meeting the OMB exception; and activities for this fund are reported in the DAF GF financial statements.

AB. TRANSACTIONS WITH FOREIGN AND INTERNATIONAL ORGANIZATIONS

Each year, the DAF GF 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 this act, the DAF GF has the 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 through the foreign military sales trust fund. Additionally, the DAF GF enters into strategic agreements with other countries to provide access to certain satellite constellations.

AC. FIDUCIARY ACTIVITIES

Fiduciary Activities which the DAF GF must uphold are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have an ownership interest. Fiduciary cash and other assets are not assets of the DAF GF and are not recognized on the Balance Sheet.

For additional information, refer to [Note 23, Fiduciary Activities](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AD. TAX EXEMPT STATUS

As an entity of the Federal Government, the DAF GF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

AE. STANDARDIZED BALANCE SHEET, THE STATEMENT OF CHANGES IN NET POSITION, AND RELATED FOOTNOTES – COMPARATIVE YEAR PRESENTATION

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136, *Financial Reporting Requirements*. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The mapping of United States Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V, *USSGL Crosswalks to Standard External Reports*. The footnotes affected by the modified presentation are [Note 13, Federal Employee and Veteran Benefits Payable](#), [Note 15, Other Liabilities](#), and [Note 24, Reconciliation of Net Cost to Net Outlays](#).

For information related to restated balances resulting from prior period adjustments, refer to [Note 27, Restatements](#).

NOTE 2 NON-ENTITY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	RESTATED 2023 (UNAUDITED)
Intragovernmental		
Fund Balance with Treasury	\$ 276,708	\$ 1,092,666
Total Intragovernmental Assets	\$ 276,708	\$ 1,092,666
Other than Intragovernmental		
Cash and Other Monetary Assets	\$ 81,422	\$ 94,020
Accounts Receivable	257,416	24,866
Total Other than Intragovernmental	\$ 338,838	\$ 118,886
Total Non-Entity Assets	\$ 615,546	\$ 1,211,552
Total Entity Assets	\$ 445,338,890	\$ 435,228,639
Total Assets	\$ 445,954,436	\$ 436,440,191

Non-Entity Assets are assets for which the DAF GF maintains stewardship accountability and reporting responsibility. Non-Entity Assets consist of assets belonging to other entities but are offset by the DAF GF’s liabilities to accurately reflect the DAF GF’s net position.

Intragovernmental Fund Balance with Treasury represents amounts in the DAF GF’s deposit funds that are not available for the DAF GF’s use.

Other than Intragovernmental 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 Disbursing Officers as agents of the Treasury. For additional information, refer to [Note 1.H., Summary of Significant Accounting Policies - Cash and Other Monetary Assets](#), and [Note 4, Cash and Other Monetary Assets](#).

Other than Intragovernmental Accounts Receivable consists of amounts associated with multiple types of long-term agreements; cancelled year appropriations; and interest, fines, and penalties receivable. Generally, the DAF GF cannot use the proceeds and must remit them to the Treasury unless permitted by law.

NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balance		
Available	\$ 46,453,517	\$ 34,884,437
Unavailable	5,743,253	5,153,939
Total Unobligated Balance	\$ 52,196,770	\$ 40,038,376
Obligated Balance Not Yet Disbursed	\$ 152,815,995	\$ 147,241,866
Non-Budgetary Fund Balance with Treasury		
Clearing Accounts	\$ (5,658)	\$ 12,222
Deposit Funds	276,708	1,092,666
Total Non-Budgetary Fund Balance with Treasury	\$ 271,050	\$ 1,104,888
Non-Fund Balance with Treasury Budgetary Accounts		
Investments - Treasury Securities	\$ (7)	\$ (7)
Unfilled Customer Orders without Advance	(3,482,765)	(3,194,528)
Receivables and Other	(1,424,453)	(1,121,467)
Total Non-Fund Balance with Treasury Budgetary Accounts	\$ (4,907,225)	\$ (4,316,002)
Total Fund Balance with Treasury	\$ 200,376,590	\$ 184,069,128

The Treasury records cash receipts and disbursements on the DAF GF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF GF Fund Balance with Treasury (FBwT) consists of appropriation accounts, revolving funds, trust accounts, special funds, and other fund types.

The Status of FBwT reflects the reconciliation between the budgetary resources supporting FBwT, largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed, and those resources provided by other means. The Total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

The Unobligated Balance is classified as Available or Unavailable and represents the cumulative amount of budgetary authority set aside to cover outstanding future obligations. The Available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The Unavailable balance consists of expired unobligated authority from prior years that is no longer available for new obligations. The DAF GF has an immaterial amount of Unobligated Balances for trust fund accounts which are restricted for use by public laws establishing the funds.

The Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-Budgetary FBwT includes accounts without budgetary authority, such as Clearing Accounts and Deposit Funds. Clearing Accounts include activity from suspense transactions that are temporary in nature and are recorded in accordance with DoD Financial Management Regulation Volume 12, Chapter 1, *Funds*. Deposit Funds primarily relate to payroll withholdings for which a liability is recorded as a component of Other Liabilities. Refer to [Note 15, Other Liabilities](#).

NOTE 3 FUND BALANCE WITH TREASURY

Non-FBwT Budgetary Accounts create budget authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. Non-FBwT Budgetary Accounts include Investments – Treasury Securities, Unfilled Customer Orders without Advance, and Receivables and Other.

- » Investments – Treasury Securities provide the DAF GF with budgetary authority and enable the DAF GF to access funds to make future benefit payments or other expenditures. The DAF GF must redeem these securities before they become part of the FBwT.
- » Unfilled Customer Orders without Advance and Receivables and Other provide budgetary resources when reimbursements are collected, not when orders are accepted or have been earned. FBwT is only increased when reimbursements are collected.

The FBwT reported in the financial statements has been adjusted to reflect the DAF GF's balance as reported by the Treasury. The difference between FBwT in the DAF GF's general ledger and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DAF GF's general ledger as a result of timing differences in posting transactions to the DAF GF's general ledger or the inability to obtain valid accounting information prior to the issuance of the financial statements. The following adjustments were necessary for the DAF GF to reconcile their general ledger to the Treasury: \$120.0 million in net undistributed collections, and (\$1.6) billion in net undistributed disbursements as of September 30, 2024. These net amounts represent the culmination of collections and disbursements throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF GF's general ledger.

The DAF GF is unable to fully reconcile all discrepancies between the DAF GF's general ledger and the Treasury in a timely manner due to control gaps and issues in upstream processes (Procure to Pay, Civilian Pay, etc.). As such, the DAF GF records an additional quarterly accrual, which supplements the undistributed net disbursement adjustment, as described in the preceding paragraph. This additional quarterly adjustment is intended to more accurately reflect non-FBwT accounts included in the transactions that comprise the difference in balances between the DAF GF and the Treasury. The DAF GF performs a historical trend analysis by assessing the resolution of historical unmatched transactions. The result of this analysis has both a proprietary and budgetary impact that is reviewed and compared to previous quarter accruals for reasonableness. Accounts impacted include Advances and Prepayments, Accounts Payable, Operating Expenses, Undelivered Orders, and Delivered Orders.

As of September 30, 2024, the additional quarterly adjustment based on the historical trend analysis had a total budgetary impact of \$397.3 million and a net proprietary impact of (\$160.6) million.

As of September 30, 2024, the DAF GF assessed disbursements in transit to be immaterial.

The DAF GF has \$3.1 billion of funds in cancelled appropriations that were returned to the Treasury as of September 30, 2024.

NOTE 4 CASH AND OTHER MONETARY ASSETS

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 <i>(UNAUDITED)</i>	2023 <i>(UNAUDITED)</i>
Cash	\$ 65,072	\$ 59,010
Foreign Currency	16,350	35,010
Total Cash, Foreign Currency, & Other Monetary Assets	\$ 81,422	\$ 94,020

Cash and Foreign Currency are Non-Entity Assets and consist of cash collected and held by disbursing officers in a custodial capacity for the Treasury or other federal entity. Both assets are considered restricted and are not available to fund the DAF GF's normal operations. For additional information, refer to [Note 2, Non-Entity Assets](#).

The DAF GF reported \$41.6 million in cash held from dedicated collections as of September 30, 2024. For additional information, refer to [Note 18, Funds from Dedicated Collections](#).

NOTE 5 INVESTMENTS, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)					
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED GAIN/(LOSS)	MARKET VALUE
Intragovernmental						
Non-Marketable, Market-Based						
Other Funds	\$ 7	\$ 0	\$ 0	\$ 7	\$ 1	\$ 8
Total Non-Marketable, Market-Based	\$ 7	\$ 0	\$ 0	\$ 7	\$ 1	\$ 8
Total Intragovernmental Investments	\$ 7	\$ 0	\$ 0	\$ 7	\$ 1	\$ 8

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)					
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED GAIN/(LOSS)	MARKET VALUE
Intragovernmental						
Non-Marketable, Market-Based						
Other Funds	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
Total Non-Marketable, Market-Based	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
Total Intragovernmental Investments	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7

Intragovernmental Other Funds primarily represent the DAF GF General Gift Fund investment in Treasury Securities. The value of these Non-Marketable, Market-Based Securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; balances are not adjusted to market value.

The Treasury securities were issued to trust and special funds legally authorized to invest funds with the Treasury, including those held by a Fund from Dedicated Collections, which are an asset to the DAF GF and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. The cash generated is deposited in the Treasury and used for general government purposes. Since the DAF GF and the Treasury are both part of the Federal Government, these assets and liabilities offset each other at a consolidated level. For this reason, they do not represent an asset or a liability in the Government-wide financial statements.

The Treasury securities provide the DAF GF with authority to access funds to make future benefit payments or other expenditures. When the DAF GF requires redemption of 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 of its other expenditures.

For additional information on the DAF GF General Gift Fund, refer to [Note 18, Funds from Dedicated Collections](#).

Cash contributions and contributions of Real Property assets have been made in connection with the DAF GF Military Housing Privatization Initiative (MHPI) agreements, which constitute Other Investments. However, these investments and related transactions are recorded only in the DoD consolidated financial statements; no transactions or amounts are recorded in the DAF GF principal financial statements. A reconciliation of MHPI investment activity for FY 2024 is currently not available. In support of the DoD consolidated financial statement

NOTE 5 *INVESTMENTS, NET*

disclosures for MHPI, the DAF GF is developing processes to obtain the information necessary to comply with the disclosure requirements in Statement of Federal Financial Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements*, in subsequent FYs.

For additional information on the DAF GF MHPI agreements, refer to [Note 25, *Public-Private Partnerships*](#).

NOTE 6 ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 958,160	\$ (21,983)	\$ 936,177
Other than Intragovernmental Receivables (From the Public)	640,700	(376,668)	264,032
Total Accounts Receivable	\$ 1,598,860	\$ (398,651)	\$ 1,200,209

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 1,111,234	\$ (21,949)	\$ 1,089,285
Other than Intragovernmental Receivables (From the Public)	615,546	(58,025)	557,521
Total Accounts Receivable	\$ 1,726,780	\$ (79,974)	\$ 1,646,806

Accounts Receivable represents the DAF GF’s claim for payment from federal and non-federal entities. As of September 30, 2024, the DAF GF reported a receivable allowance for Intragovernmental Receivables balance of \$22.0 million in accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*. An allowance recorded to recognize an Intragovernmental Receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to [Note 1.J., Summary of Significant Accounting Policies – Accounts Receivable](#).

NOTE 7 LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

The DAF GF is in the process of reviewing its business arrangements and transactions to determine those that meet the disclosure requirements of Statement of Federal Financial Accounting Standards (SFFAS) 49, *Public-Private Partnerships: Disclosure Requirements*. To date, the DAF GF has identified the Military Housing Privatization Initiative (MHPI) as meeting the requirements for disclosure in its financial statements in accordance with SFFAS 49. Disclosure information for the MHPI, as well as consideration of other DAF GF arrangements which may meet the criteria for SFFAS 49 disclosure, are described in [Note 25, Public-Private Partnerships](#).

Loans Receivable represent the aggregate sum of gross direct loans and accrued interest receivable, less allowance for subsidy cost.

Transactions and amounts for the MHPI direct loans and loan guarantees disclosed herein are recorded only in the DoD consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements.

Since the inception of the MHPI program, no direct loan project has ever defaulted on its obligations. The DAF GF recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every two to three years outlining the needs of a project. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

Additionally, the DAF GF is planning to perform Government Direct Loan (GDL) modifications, make a government equity investment, and/or make Differential Lease Payments for various projects:

FY 2025

The 'FY 2025' represents the current estimated year of execution for the planned restructure. Due to ongoing negotiations and required approvals it may slip to future FYs.

- » **Project 1** – Shortfalls (~\$5.8 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by a large, preferred return balance that is restricting deposits to the Reinvestment Account until the preferred return balance is paid in full in 2054. The DAF GF is providing additional funding to the project via a Government equity investment/Differential Lease Payments and securing Project Owner concessions (preferred return forgiveness and additional near-term sustainment deposits). Office of Management and Budget approved the restructure on May 28, 2024. Execution/closing currently estimated for November 2024.
- » **Project 2** – Shortfalls (~\$41.8 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low Basic Allowance for Housing (BAH) growth and higher sustainment and reinvestment needs. Prior to the future planned restructure, modifying the terms of the GDL (no DAF GF cost) is under consideration as an interim solution to help improve project cash flows, mitigate any potential risks to future debt service payments, and allow for more funding to flow to the Reinvestment Accounts in the near-term.
- » **Project 3** – Shortfalls (~\$51.6 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by higher sustainment and reinvestment needs. Prior to the future planned restructure, modifying the terms of the GDL (no DAF GF cost) is under consideration as an interim solution to help improve project cash flows, mitigate any potential risks to future debt service payments, and allow for more funding to flow to the Reinvestment Accounts in the near-term.

NOTE 7 LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

- » **Project 4** – Shortfalls (~\$32.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by weak BAH growth, occupancy challenges and outdated units that are not competitive with the market. Modifying the terms of the GDL, providing additional funding to the project via Differential Lease Payments, and securing Project Owner concessions are under consideration.
- » **Project 5** – Shortfalls (~\$70.0 million for restoration due to a natural disaster (subject to change based on construction cost inflation impacts), ~\$54.1 million for sustainment over the next 10 years and 0.0% mid-term reinvestment funded) driven by the impacts from the natural disaster (low occupancy, cash flow impacts, etc.) as well as low BAH growth from 2011-2022. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment, and securing Project Owner concessions are under consideration.
- » **Project 6** – Shortfalls (~\$81.8 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by large, deferred fee/preferred return balances never expected to be repaid; no funds ever reach the Reinvestment Account. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment, and securing Project Owner concessions are under consideration.
- » **Project 7** – Near-term shortfalls (~\$2.8 million for sustainment over the next five years with ~259.1% mid-term reinvestment funded) driven by large, deferred fees that are preventing deposits to the Reinvestment Account until the deferred fees are paid in full in 2029. While the long-term financial projections have improved more recently due to strong BAH growth, there are still unresolved risks that could drastically affect the current projections and support the need to continue with the planned restructure. Modifying the terms of the GDL and securing Project Owner concessions are under consideration.
- » **Project 8** – Shortfalls (~\$95.3 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low BAH growth, higher operating expenses, large, preferred return balances, and higher sustainment and reinvestment needs. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.
- » **Project 9** – Shortfalls (~\$90.1 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low BAH growth, higher operating expenses, delayed preferred return payoff, unforeseen costs, and higher sustainment and reinvestment needs. Providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.
- » **Project 10** – Shortfalls (~\$41.8 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low BAH growth and higher sustainment and reinvestment needs. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.

FY 2026

The 'FY 2026' represents the current estimated year of execution for the planned restructure. Due to ongoing negotiations and required approvals it may slip to future FYs.

- » **Project 11** – Shortfalls (moisture remediation program at Keesler Air Force Base (AFB) as needed, ~\$8.4 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low BAH growth, higher operating expenses, and unforeseen moisture issues at Keesler AFB that have driven high remediation costs and lower revenue due to the number of units offline. Providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.

NOTE 7 *LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES*

- » **Project 12** – Shortfalls (~\$8.7 million for sustainment over the next 10 years with 16.0% mid-term reinvestment funded) driven by low occupancy, higher operating expenses, and higher sustainment and reinvestment needs. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment, and securing Project Owner concessions are under consideration.

The DAF GF is currently in the early planning stages for other projects under consideration for potential modification. Due to the fluid nature of the negotiations with the project owners, these potential modifications are not being reported at this time. If plans solidify, these projects will be added to this note in the future.

For additional information on activities related to the MHPI, refer to [Note 12, Debt](#), and [Note 25, Public-Private Partnerships](#).

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	\$ 66,027,899	N/A	\$ 66,027,899
Held in Reserve for Future Use	1,605,031	N/A	1,605,031
Held for Repair	5,141,076	0	5,141,076
Excess, Obsolete, and Unserviceable	0	0	0
Total	\$ 72,774,006	\$ 0	\$ 72,774,006

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2023 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	\$ 62,668,555	N/A	\$ 62,668,555
Held in Reserve for Future Use	1,499,410	N/A	1,499,410
Held for Repair	7,363,508	0	7,363,508
Excess, Obsolete, and Unserviceable	418,279	(418,279)	0
Total	\$ 71,949,752	\$ (418,279)	\$ 71,531,473

GENERAL COMPOSITION OF OPERATING MATERIALS & SUPPLIES

Operating Materials and Supplies (OM&S) consists of tangible personal property to be consumed in normal operations, including Munitions (MUNS), Uninstalled Missile Motors (UMMs), Spare Engines (SE), Contractor-Inventory Control Point (C-ICP), Base Possessed (BP), Aerial Targets & Drones, and Cruise Missiles.

MUNITIONS

The term MUNS is inclusive of all conventional (non-nuclear) MUNS and the components that comprise these assets. Examples include the following: Aircraft Guns, Conventional Ground, Air-to-Ground, Ammunition, Explosive Ordinances, etc. Furthermore, Class V MUNS include - Ammunition of all types, bombs, explosives, mines, fuses, detonators, pyrotechnics, missiles, rockets, propellants, and associated items.

MUNS is also comprised of LGM-30G Minuteman (MM) III missiles, which are long-range, solid-fuel, three-stage Intercontinental Ballistic Missile (ICBM) with the capability to carry single or multiple nuclear warheads. Effective FY 2024 Quarter (Q)3, the OSD published a memorandum to change the accounting treatment for all missiles, including long-range ballistic variants such as ICBMs, to be designated as OM&S for financial reporting purposes. The DAF GF prepared and recorded a prior period adjustment in FY 2024 Q4 to reclassify ICBMs from General Equipment (GE) to OM&S on the DAF GF financial statements.

UNINSTALLED MISSILE MOTORS

UMMs are used to support the active fleet of MM III Intercontinental Ballistic Missiles (MM III Stages I-III and Propulsion System Rocket Engine) and the Rocket System Launch Program. Examples of UMMs include

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

Peacekeeper, MM II, MM III, etc. UMMs while it is its own Assessable Unit fall under the Class V supply category, the same as MUNS. Additionally, UMMs were subsumed into the Theater Integrated Combat Munitions System (TICMS) Accountable Property System of Record (APSR), the same APSR as MUNS.

SPARE ENGINES

SEs includes uninstalled or unusable aircraft and cruise missile engines owned by DAF GF.

CONTRACTOR-INVENTORY CONTROL POINT

C-ICP is defined as Government Furnished Material that is managed and held by DoD contractors.

BASE POSSESSED

BP includes materials that provides a direction for determining and stocking materiel requirements, cataloging, ordering, sourcing, delivering, and return/disposal of material for OM&S.

OM&S VALUATION

The DAF GF has valued some of its OM&S using deemed cost methodologies as defined in Statement of Federal Financial Accounting Standards (SFFAS) 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. However, APSRs and processes required to consistently account for historical cost for all OM&S in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, as applicable, are not fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to any OM&S line items in accordance with SFFAS 48.

The DAF GF has not been able to identify a complete population of programs that contain contractor managed OM&S. In addition, some contractor systems can only provide minimal OM&S accounting data that can be used to prepare the financial statements. Although some programs report transactional data, the data provided by many other programs consists of only beginning and ending balances for each of the following asset accounts: Held for Use, Excess, Obsolete, and Unserviceable (EOU), Held for Future Use, and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the DAF GF can only report the net change between prior period ending balances and the values reported as current period ending balances.

The DAF GF is actively working to validate if any proceeds from OM&S disposition are realizable and recognizable. To date, the DAF GF has not confirmed the proceeds received from the disposal of EOU OM&S assets and, therefore, recorded a loss to report EOU OM&S \$1.8 billion at Net Realizable Value (NRV), which is currently reported as zero.

The DAF GF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work-in-process type asset account, including OM&S In-Development. Until system modifications are made, contract financing payments, as disclosed in [Note 10, Other Assets](#), are overstated and work-in-process type assets (including OM&S In-Development) are understated.

MUNS purchased prior to 2016 are valued based on the Federal Logistics Information System catalogue price. MUNS purchased after 2016 are valued based on actual historical cost. In the first quarter of FY 2024, UMM assets migrated from Integrated Missile Database to the MUNS APSR, TICMS. TICMS calculates Moving Average Cost (MAC) for MUNS and UMM.

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

The DAF GF performed valuation for ICBMs previously using valuation methods that were 1) reasonable historical cost estimates based on cost of similar assets at the time of acquisition; or 2) other reasonable methods, including latest acquisition cost and estimation methods based on information such as, but not limited to engineering documents or other reports reflecting amounts to be expended.

SEs are valued based on estimated historical cost. The Comprehensive Engine Maintenance System calculates MAC.

C-ICP asset population has not been verified to confirm the asset universe nor validate whether the contractors' inventory management systems and the DAF GF's APSRs Automated Logistics Management Support System and Defense Property Accountability System have the system capability to accurately calculate MAC. The DAF GF is currently evaluating alternative valuation methods to apply to the C-ICP population to overcome challenges related to MAC and considering the anticipated revisions to the DoD Financial Management Regulation to allow other valuation methods recognized by SFFAS 3. The DAF GF has issued a Contract Data Requirements List requiring financial reporting on a quarterly basis. However, the DAF GF has identified that not all C-ICP Programs are submitting the required Chief Financial Officer Reports or reporting through APSRs.

BP APSR Integrated Logistics Supply System calculates MAC.

CONSUMPTION VS PURCHASES METHOD OF ACCOUNTING

The consumption method of accounting requires that OM&S be recognized and reported as assets when they are produced or purchased. The cost of goods must be removed from the applicable OM&S asset account and reported as an operating expense in the period in which the items are issued to an end user for consumption in normal operations. The purchases method of accounting is an accounting method whereby OM&S are expensed when purchased. The DAF GF accounts for OM&S by using a combination of the consumption and purchases method of accounting. Currently, DAF applies the consumption method of accounting for MUNS, UMM, SE, C-ICP, and BP. The DAF GF applies the purchases method of accounting, an alternative accounting treatment per SFFAS 3, for Cruise Missiles and Aerial Targets/Drones.

DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH OM&S ITEMS ARE ASSIGNED

Held for Use - to record the value of materials and supplies held for use in normal operations. This account is also used to record the initial acceptance of materials and supplies in transit when title has passed but the items have not been received and accepted.

Held in Reserve for Future Use - to record the value of stocks of materials and supplies maintained because they are not readily available in the market and there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations.

Excess, Obsolete, and Unserviceable - to record the value of OM&S (serviceable or unserviceable) that exceed the amount expected to be used in normal operations and do not meet management's criteria to be held in reserve for future use. Obsolete OM&S include stocks that are no longer needed due to changes in technology, laws, customs, or operations. Unserviceable OM&S are items that are physically damaged and cannot be consumed in operations. The DAF GF is responsible for identifying inventory that is EOU. Upon identification of inventory as EOU, the DAF GF must write down the value of EOU inventory to its NRV.

Held for Repair - This account is used to record the value of materials and supplies that are not in usable condition but can be economically repaired. The objective is to rebuild items as an alternative and rotating source of supply. Once rebuilt, the items will be returned to OM&S Held for Use.

RESTRICTIONS ON THE USE OF OM&S

The DAF GF does not maintain any OM&S restricted assets.

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

OTHER DEPARTMENT OF THE AIR FORCE DISCLOSURES

The DAF GF contributes funds to the Joint Strike Fighter (JSF) Program for the acquisition and sustainment of a global pool of spare parts and support equipment. The JSF Program Office maintains ownership title to pooled spares until the point at which they are installed and incorporated into the DAF GF owned F-35 aircraft and maintains ownership title to pooled support equipment throughout its life. Therefore, pooled spares and support equipment are not reported on the DAF GF's Balance Sheet because the DAF GF does not own them. The DAF GF's rights to benefit from the asset pools in relation to the funding it provides are based on decision memorandums developed by the JSF Program Office and signed by the DAF GF and other program participants. The DAF GF does not currently have a process in place to effectively reconcile the funds provided to the assets issued to it from the pool at an item level. The DAF GF is participating in an OSD working group that is developing a process to allow the DAF GF to properly account for its rights to the asset pools, beyond the global spares pool, in accordance with Federal Generally Accepted Accounting Principles.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Buildings, Structures, and Linear Structures	S/L	20, 40 or 45*	\$ 101,667,109	\$ (73,240,323)	\$ 28,426,786
Leasehold Improvements	S/L	Lease Term	52,935	(26,803)	26,132
Software	S/L	2-5 or 10	446,641	(439,627)	7,014
Software in Development	N/A	N/A	182,304	N/A	182,304
General Equipment - Military Equipment	S/L	3-40	379,906,150	(266,198,143)	113,708,007
Aircraft and Modifications		5-40**	305,834,352	(207,357,005)	98,477,347
Satellites		3-15	66,865,476	(52,132,873)	14,732,603
MRAP Vehicles		15	569,509	(555,013)	14,496
Pods		10	6,636,813	(6,153,252)	483,561
General Equipment - Other	S/L	5, 10, or 20	21,711,775	(17,801,028)	3,910,747
Construction-In-Progress	N/A	N/A	19,618,865	N/A	19,618,865
Aircraft and Modifications			13,160,911	N/A	13,160,911
Satellites			5,592,864	N/A	5,592,864
Real Property			865,090	N/A	865,090
Total General Property, Plant, and Equipment, Net			\$ 523,585,779	\$ (357,705,924)	\$ 165,879,855

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2023 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Buildings, Structures, and Linear Structures	S/L	20, 40 or 45*	\$ 99,547,951	\$ (68,502,592)	\$ 31,045,359
Leasehold Improvements	S/L	Lease Term	44,729	(27,552)	17,177
Software	S/L	2-5 or 10	446,641	(439,627)	7,014
Software in Development	N/A	N/A	182,304	N/A	182,304
General Equipment - Military Equipment	S/L	3-40	376,439,483	(261,518,952)	114,920,531
Aircraft and Modifications		5-40**	302,036,686	(205,046,735)	96,989,951
Satellites		3-15	67,076,525	(49,718,979)	17,357,546
MRAP Vehicles		15	629,648	(583,775)	45,873
Pods		10	6,696,624	(6,169,463)	527,161
General Equipment - Other	S/L	5, 10, or 20	23,698,577	(17,745,879)	5,952,698
Construction-In-Progress	N/A	N/A	17,588,500	N/A	17,588,500
Aircraft and Modifications			12,755,540	N/A	12,755,540
Satellites			3,607,411	N/A	3,607,411
Real Property			1,225,549	N/A	1,225,549
Total General Property, Plant, and Equipment, Net			\$ 517,948,185	\$ (348,234,602)	\$ 169,713,583

LEGEND FOR DEPRECIATION/AMORTIZATION METHOD & SERVICE LIFE:

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

* Estimated useful service life is 20 years for structures, 40 years for linear structures, and 45 years for buildings.

** Estimated useful service life is 5-30 years for modifications and 16-40 for aircraft.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	RESTATED 2023 (UNAUDITED)
General Property, Plant, and Equipment, Net Beginning of Year	\$ 169,713,583	\$ 173,115,098
Capitalized Acquisitions	14,543,097	20,011,164
Dispositions	(476,340)	(956,539)
Transfers In/(Out) Without Reimbursement	370,577	(857,213)
Revaluations (+/-)*	(1,865,497)	(281,840)
Depreciation Expense	(16,405,565)	(14,426,217)
Other (+/-)	0	(6,890,870)
General Property, Plant, and Equipment, Net End of Year	\$ 165,879,855	\$ 169,713,583

* Revaluations line above does not relate to Military Equipment.

GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF GF has valued its General Property, Plant, and Equipment (PP&E) - Military Equipment using deemed cost methodologies as defined in Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. The DAF GF has made an unreserved assertion for its Military Equipment portion of the General PP&E line in accordance with SFFAS 50 as of October 1, 2023. The DAF GF, when applicable, will continue to implement SFFAS 50 to establish opening balances for the General PP&E Other category. The implementation of SFFAS 50 for Military Equipment did not result in further accounting principle adjustments since all significant misstatements had already been corrected in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. Additionally, systems and processes required to consistently account for historical cost for all General PP&E Other in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*, as applicable, are not fully in place. The DAF GF does not have a material impairment that requires a disclosure in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

Through the execution of recurring internal control procedures, the DAF GF identified activity in FY 2024 that required prior period adjustments. As such, the DAF GF restated prior year balances which resulted in an impact to General PP&E and Cumulative Results of Operations on the Balance Sheet, and Cumulative Results of Operations on the Statement of Changes in Net Position.

For additional information, refer to [Note 27, Restatements](#).

BUILDINGS, STRUCTURES, AND LINEAR STRUCTURES

The DAF GF will continue to validate and correct reported values from the Accountable Property System of Record (APSR), and strengthen go-forward processes, to enable complete and accurate accounting in the general ledgers. The DAF GF will continue to improve the underlying systems and data used to support Real Property values reported on the DAF GF's financial statements. Interim adjustments may occur to address targeted activities while solutions that are more permanent are planned and executed to address root causes.

The DAF GF reports in its financial statements Real Property within DoD installations where the DAF GF is the designated installation host. This includes Real Property on the DAF GF installations used and occupied by other DoD agencies. As the installation host, the DAF GF does not report assets on its installation that were funded and

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

are exclusively used by an entity not included in the consolidated DoD financial statements. While the DAF GF is responsible and accountable for accepting, controlling, managing, and utilizing Real Property, the DAF GF may enter into Memoranda of Agreement with another Military Department, Washington Headquarters Services or other DoD Components, and license or permit with a non-DoD governmental agency, transferring the right to control the use of a DAF GF Real Property to the other organization. The transfer of the right to control the use of the Real Property does not transfer jurisdiction and the asset remains under the jurisdiction of the DAF GF. The DAF GF continues to work toward compliance with DoD Financial Management Regulation Volume 4, Chapter 24, *Real Property*, by working with other Military Departments to reconcile Real Property reports.

In FY 2024, the DAF GF changed the capitalization threshold for real property from \$250.0 thousand to \$1.0 million. The DAF GF currently reports assets under Caretaker Status within Buildings, Structures, and Linear Structures. Caretaker Status is defined as property under the legal jurisdiction of the DAF GF awaiting further disposition, sale, or transfer to another entity.

LEASEHOLD IMPROVEMENTS

The DAF GF has ongoing efforts to validate the Leasehold Improvement balance. Leasehold Improvements are additions, alterations, remodeling, or other changes to a leased property that either extend the useful life or enlarge or improve the capacity of existing property.

SOFTWARE

Internal Use Software (IUS) is comprised of both financial and administrative software, including those used for project management, and software used to produce goods and services. IUS may exist as a stand-alone application, or the combined software components of an information technology system. However, software that is integrated into and necessary to operate equipment rather than perform an application is not considered or treated as IUS. IUS encompasses the following types of software:

- » **Commercial Off-the-Shelf Software** – Software acquired from a vendor or other government entity, typically in the form of a license, which is ready for use with little or no changes.
- » **Developed Software** – Internally developed software is software that is developed by or under the oversight of the DAF GF Program Offices (contractor-developed), including new software and the modification of existing or purchased software or software licenses.

As of September 30, 2024, the DAF GF was unable to support the reported balance for IUS. The DAF GF is in the process of implementing processes and controls in accordance with SFFAS 10. Once these processes and controls are in place, the DAF GF intends to expense, in the FY of the unreserved assertion, IUS balances in a future period as permitted by SFFAS 50.

GENERAL EQUIPMENT

The DAF has two categories within its PP&E Line item, Military Equipment and Other. The Military Equipment portion includes multiple asset types such as Aircraft and Modifications, Satellites, Missiles, Pods, and Mine-Resistant Ambush Protected (MRAP) Vehicles. Alternative valuation methods used to establish opening balances for Military Equipment, as permitted by SFFAS 50, were reasonable historical cost estimates based on: 1) cost of similar assets at the time of acquisition; or 2) contracts, budgetary information, and other key supporting documentation such as Selected Acquisition Reports. The DAF GF established opening balances for Military Equipment (inclusive of Construction-in-Progress) in accordance with SFFAS 50 as of October 1, 2023 using deemed cost methodology. The DAF GF will value subsequent procurements and capital improvements in accordance with SFFAS 6. Since October 1, 2023, the DAF GF has recorded new aircraft and capitalizable modifications to existing Military Equipment assets using historical cost in accordance with SFFAS 6.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Equipment – Military Equipment:

Aircraft and Modifications – Represents the most significant portion of General Equipment and is comprised of 11 categories of aircraft based on mission types: attack, bomber, transport, electronic, fighter, trainer, helicopter, vertical takeoff and landing, utility, glider, and remotely piloted aircraft systems.

Satellites – A spacecraft placed into orbit whose purposes include communication relay, weather forecasting, navigation, and broadcasting. Additionally, military uses include reconnaissance, early warning, signal intelligence, and weapon delivery.

Pods – A pod is a self-contained system, designed to be externally carried, and fulfill a specific function for bomber, fighter, interceptor, strike, and reconnaissance aircraft.

MRAP Vehicles – Vehicles which are designed to provide increased crew protection and vehicle survivability against current battlefield threats, such as Improvised Explosive Devices, mines, and small arms.

General Equipment – Other:

Other General Equipment (OGE) includes assets classified as support equipment such as passenger carrying, non-mine resistant ambush protected vehicles, communications security equipment, nuclear weapons-related material, satellite ground control segments, and special tooling and special test equipment, either as equipment in the possession of the DAF GF or as Government Furnished Equipment in the possession of contractors. The DAF GF continues efforts to validate the OGE population in order to establish or migrate asset records to fully implement Defense Property Accountability System as the OGE APSR, which will improve oversight capabilities for tracking, monitoring, and financially reporting OGE. The DAF GF can account for only a portion of its support equipment and these support equipment categories have not yet been valued using deemed cost to establish opening balances under SFFAS 50. The DAF GF intends to value these equipment categories using deemed cost to establish opening balances under SFFAS 50 in future FYs.

RIGHT TO USE LEASE ASSET

Starting in FY 2024, in accordance with SFFAS 54, *Leases*, the DAF GF is required to report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements, when the DAF GF has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement. The DAF GF is still implementing processes to identify and value right-to-use assets and lease liabilities. The DAF GF has not identified any leased assets for Military Equipment.

CONSTRUCTION-IN-PROGRESS

Military Equipment – The DAF GF reports CIP for applicable Military Equipment assets under development. The methodology to estimate CIP is based on the capitalizable expenditures during the period by program and by contract. CIP is reduced based on delivered assets placed in service, which are then recorded in the APSR at actual historical cost. The DAF GF currently reports CIP balances for 13 aircraft platforms, 18 aircraft modification platforms, and eight variants of satellite assets currently in production.

Real Property – The DAF GF constructs Real Property and works closely with other Military Departments, the U.S. Army Corps of Engineers (USACE), foreign governments, and private sector entities for design and construction. The DAF GF has begun coordinating with all relevant stakeholders to establish consistent and repeatable processes for CIP. Most of the Real Property construction is performed and reported by USACE as a service provider for the DAF GF under a sub-allotment authority.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

RESTRICTIONS ON THE USE OR CONVERTIBILITY OF GENERAL PP&E

There are restrictions on the DAF GF’s ability to dispose of land, buildings, structures, and linear structures located outside the continental U.S. The DAF GF has use of overseas land, buildings, and structures obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the DAF GF’s use and disposal of the restricted property located outside the U.S. For additional information, refer to [Note 1.Y., Summary of Significant Accounting Policies – Treaties for Use of Foreign Bases.](#)

OTHER DEPARTMENT OF THE AIR FORCE DISCLOSURES

The DAF GF contributes funds to the Joint Strike Fighter (JSF) Program for the acquisition and sustainment of a global pool of spare parts and support equipment. The JSF Program Office maintains ownership title to pooled spares until the point at which they are installed and incorporated into the DAF GF owned F-35 aircraft and maintains ownership title to pooled support equipment throughout its life. Therefore, pooled spares and support equipment are not reported on the DAF GF’s Balance Sheet because the DAF GF does not own them. The DAF GF’s rights to benefit from the asset pools in relation to the funding it provides are based on decision memorandums developed by the JSF Program Office and signed by the DAF GF and other program participants. The DAF GF does not currently have a process in place to effectively reconcile the funds provided to the assets issued to it from the pool at an item level. The DAF GF is participating in an OSD working group that is developing a process to allow the DAF GF to properly account for its rights to the asset pools, beyond the global spares pool, in accordance with Federal Generally Accepted Accounting Principles.

HERITAGE ASSETS

HERITAGE ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024 (PHYSICAL COUNT) (UNAUDITED)					
HERITAGE ASSET CATEGORIES MEASUREMENT	MEASUREMENT QUANTITY	AS OF SEPTEMBER 30, 2023	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2024
Buildings, Structures, and Linear Structures	Each	6,910	69	(845)	6,134
Archaeological Sites	Each	2,314	40	(44)	2,310
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,356	390	(245)	135,501
Museum Collection Items (Fine Art)	Each	10,207	27	(27)	10,207

The DAF GF fully commits to the preservation of the USAF history, heritage, and traditions, and meets this commitment through its policy to preserve Heritage Assets, which are items of natural, cultural, educational, architectural, or artistic significance. The DAF GF defines Heritage Assets as follows:

- » **Buildings, Structures, and Linear Structures:** Buildings, Structures, and Linear Structures are listed on, or eligible for listing on, the National Register of Historic Places (NRHP) in accordance with Section 110 of the National Historic Preservation Act (NHPA), including multi-use Heritage Assets.
- » **Archaeological Sites:** Sites that have been identified, evaluated, and determined eligible for listing on, or listed on, the NRHP in accordance with Section 110 of the NHPA.
- » **Museum Collection Items:** Items are considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The DAF GF has become a large-scale owner of historic buildings, structures, archaeological sites, artifacts, aircraft, and other cultural resources. The determination of buildings and structures, and archaeological sites, to be listed on the NRHP is made by the appropriate base civil engineering group with concurrence by the relevant State Historic Preservation Officer or by a determination from the Keeper of the NRHP. Guidelines for determining eligibility for listing on the NRHP are located in the Code of Federal Regulations, Title 36, Part 60, Section 60.4. Each State's Historic Preservation Office assists the DAF GF with the identification, evaluation, protection, and enhancement of Heritage Assets located within the state.

The DAF GF, with minor exceptions, uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use Heritage Assets. If an asset is classified as a single-use Heritage Asset, the asset is not depreciated, nor recorded on the DAF GF's Balance Sheet. The DAF GF is in the process of validating assets that are recorded as a multi-use Heritage Asset as opposed to a single-use Heritage Asset. The DAF GF does not receive any Heritage Assets through donation or devise related to Buildings, Structures, and Linear Structures and Archaeological Sites. For information related to deferred maintenance and repairs, including Heritage Assets, refer to DAF GF's [Required Supplementary Information](#) Section.

Buildings, Structures, and Linear Structures

As mentioned above, Buildings, Structures, and Linear Structures that are classified as Heritage Assets are those that are listed on, or eligible for listing on the NRHP, including multi-use facilities. Each base's civil engineering group, as part of their overall responsibility, maintains these facilities in accordance with the NHPA, and The Secretary of Interior's *Standards for The Treatment of Historic Properties*. The DAF GF reported 6,910 Buildings, Structures, and Linear Structures on the DAF GF installations and garrisons as Heritage Assets as of September 30, 2023. As of September 30, 2024, 6,134 Buildings, Structures, and Linear Structures are classified as Heritage Assets, representing a net decrease of 776 during the period.

Archaeological Sites

Archaeological Sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for listing on, or are listed on, the NRHP. The DAF GF reported 2,314 Archaeological Sites as Heritage Assets as of September 30, 2023. As of September 30, 2024, 2,310 known Archaeological Sites are classified as Heritage Assets, representing a net decrease of four during the period. This cohort of archaeological Heritage Assets is a subset of the over 22,400 known Archaeological Sites recorded on the DAF GF-controlled and owned lands in the U.S. and its Territories.

Archaeological site data is tracked and maintained by the Air Force Civil Engineer Center/Environmental Quality Technical Support Branch (AFCEC/CZTQ). AFCEC/CZTQ collects archaeological data during the bi-annual Environmental Management Review data call.

Museum Collection Items, Objects

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

During the period between October 1, 2023 through September 30, 2024 there have been 390 objects added to the collection. These additions are a result of private donations; transfers from the DAF GF or other federal entities; curatorial administrative actions such as class code changes, accession breakouts, and the continued documentation of newly reported artifacts at the DAF GF activities worldwide, etc. There were 245 objects deleted due to administrative actions or 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

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

NMUSAF’s active collection management process, the accession and deaccession of objects is continuous and balances reported represent the information at the respective time of reporting.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is well maintained as a result of both the professional care from trained conservators and improving exhibit/storage conditions.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a Fine Art collection separate from the DAF Art Program numbering 959 items as of September 30, 2024, representing three additions in the period from October 1, 2023 to September 30, 2024. There were 15 objects deaccessioned from the collection due to excess/poor condition. Containing original oils, drawings, sketches, and sculptures, these Fine Art holdings are in direct support of the NMUSAF exhibit requirements.

An additional art collection held by the DAF Art Program also contains original oils, drawing, sketches, textiles, and sculptures. As of September 30, 2023, those items totaled 9,236. The DAF Art Program saw a net increase of 12 pieces, resulting in 9,248 items as of September 30, 2024.

The NMUSAF and DAF Art Program combined held a total of 10,207 and 10,207 pieces of art as of September 30, 2024 and September 30, 2023, respectively.

GENERAL PP&E LAND AND STEWARDSHIP LAND

GENERAL PP&E LAND AND STEWARDSHIP LAND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024 <i>(ACRES IN THOUSANDS) (UNAUDITED)</i>					
FACILITY ANALYSIS CODE	FACILITY ANALYSIS CODE TITLE	AS OF SEPTEMBER 30, 2023	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2024
9110	Land	8,215	31	(47)	8,199
9900	Land Rights	136	48	(17)	167
Total		8,351	79	(64)	8,366

The table above presents combined acreage amounts for both General PP&E Land and Stewardship Land from the DAF GF APSR. In addition to the appropriate categorization of land between General PP&E Land and Stewardship Land, the DAF GF has ongoing efforts to validate land acreage amounts for both of these categories and verify land records are reported accurately by Real Property Asset Interest Type Code in the APSRs. Ongoing efforts include the development of a land parcel map to reconcile land deeds to the land masses of the DAF GF installations, the development of a Real Property Reconciliation Tool to reconcile amounts included in the APSR with Geographic Information System maps, the implementation of new controls around the review of land deeds, and a DAF GF-wide effort to migrate to full compliance with the Real Property Information Model and SFFAS 50 re-baselining Real Property values.

General PP&E Land is land and land rights (such as easements) acquired for or in combination with General PP&E, and land acquired with the intent to construct General PP&E. Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in combination with, items of General PP&E. All DAF GF Stewardship Land is in acceptable condition based on designated use. The DAF GF is unable to identify quantities of Stewardship Land obtained through donation or devise due to limitations of the DAF GF’s financial and non-financial management processes and systems.

Information concerning estimated land acreage is discussed in the [Required Supplementary Information](#) Section.

NOTE 10 OTHER ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	RESTATED 2023 (UNAUDITED)
Intragovernmental Other Assets		
Advances and Prepayments	\$ 126,784	\$ 164,137
Total Intragovernmental Other Assets	\$ 126,784	\$ 164,137
Other Than Intragovernmental Other Assets		
Outstanding Contract Financing Payments	\$ 5,371,202	\$ 9,085,676
Advances and Prepayments	144,361	135,361
Subtotal	\$ 5,515,563	\$ 9,221,037
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totalled and presented on the Balance Sheet as "Advances and Prepayments"	(5,515,563)	(9,221,037)
Total Other Assets	\$ 126,784	\$ 164,137

INTRAGOVERNMENTAL OTHER ASSETS

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred.

OTHER THAN INTRAGOVERNMENTAL OTHER ASSETS

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, are the DAF GF's cash disbursements to a contractor under the contract prior to the DAF GF's acceptance of goods and services. Contract financing payments 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. Additionally, the DAF GF recorded prior period adjustments for OCFP to incorporate change in accounting policy of recording OCFP to operating expense/program cost instead of Advances and Prepayments. For additional information refer to [Note 27, Restatements](#).

Advances and Prepayments, excluding those classified as OCFP, are payments made in anticipation of future performance of services, receipt of goods, incurrence of expenditures, or receipt of assets.

NOTE 11 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Intragovernmental Liabilities		
Federal Employees' Compensation Act	\$ 176,320	\$ 167,962
Judgment Fund Liabilities	753,163	701,227
Other	10,075	9,399
Total Intragovernmental Liabilities	\$ 939,558	\$ 878,588
Other than Intragovernmental Liabilities		
Accounts Payable	\$ 1,795,785	\$ 1,135,417
Federal Employee and Veteran Benefits Payable	4,187,461	4,163,323
Environmental and Disposal Liabilities	15,235,388	13,733,437
Other Liabilities	406,028	219,209
Total Other than Intragovernmental Liabilities	\$ 21,624,662	\$ 19,251,386
Total Liabilities Not Covered by Budgetary Resources	\$ 22,564,220	\$ 20,129,974
Total Liabilities Covered by Budgetary Resources	\$ 26,661,619	\$ 27,707,147
Total Liabilities Not Requiring Budgetary Resources	\$ 352,609	\$ 1,199,005
Total Liabilities	\$ 49,578,448	\$ 49,036,126

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.

Intragovernmental *Federal Employees' Compensation Act* (FECA) is comprised of the unfunded FECA liability. For additional information, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#).

Intragovernmental Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to [Note 17, Commitments and Contingencies](#).

Intragovernmental Other Liabilities is primarily comprised of unfunded employment-related liabilities.

Other than Intragovernmental Accounts Payable primarily represents liabilities in cancelled appropriations which, when paid, will be disbursed using current year funds.

Other than Intragovernmental Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. 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. For additional details and disclosures, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#).

For additional details and disclosures related to Environmental and Disposal Liabilities, refer to [Note 14, Environmental and Disposal Liabilities](#).

NOTE 11 *LIABILITIES NOT COVERED BY BUDGETARY RESOURCES*

Other than Intragovernmental Other Liabilities are primarily comprised of the amounts recorded for unpaid leave and Contingent Liabilities. Earned unpaid leave is entitled to an employee upon separation from the DAF GF employment. Contingent Liabilities that are probable and measurable will require resources funded from future year appropriations.

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, the Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

Liabilities Not Requiring Budgetary Resources are liabilities that will not require the use of budgetary resources, e.g., liabilities for clearing accounts, non-fiduciary deposit funds, and custodial collections.

Starting in FY 2024, in accordance with Statement of Federal Financial Accounting Standards 54, *Leases*, the DAF GF is required to report a right-to-use lease asset and a corresponding lease liability for material non-intragovernmental, non-short-term contracts when the DAF GF has the right to control access to and/or obtain benefits from the use of real property, equipment, or other asset. The DAF GF is still implementing processes to identify and value right-to-use assets and lease liabilities.

NOTE 12 *DEBT*

Debt is established when the Military Housing Privatization Initiative (MHPI), through the administrative support of the Defense Finance and Accounting Service, borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction, and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury.

Transactions and amounts related to funds borrowed by the DAF GF from the Treasury and repayment thereof are recorded only in the DoD consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements.

For additional information on activities related to the MHPI, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#), and [Note 25, Public-Private Partnerships](#).

NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	\$ 879,536	\$ 0	\$ 879,536
Other	8,874,469	(5,566,544)	3,307,925
Total Other Benefits	\$ 9,754,005	\$ (5,566,544)	\$ 4,187,461
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 9,754,005	\$ (5,566,544)	\$ 4,187,461
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	270,654	(84,260)	186,394
Total Federal Employee and Veteran Benefits Payable	\$ 10,024,659	\$ (5,650,804)	\$ 4,373,855

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	\$ 888,889	\$ 0	\$ 888,889
Other	6,476,266	(3,201,832)	3,274,434
Total Other Benefits	\$ 7,365,155	\$ (3,201,832)	\$ 4,163,323
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 7,365,155	\$ (3,201,832)	\$ 4,163,323
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	248,782	(71,421)	177,361
Total Federal Employee and Veteran Benefits Payable	\$ 7,613,937	\$ (3,273,253)	\$ 4,340,684

FEDERAL EMPLOYEES' COMPENSATION ACT

The DAF GF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. The actuarial liability for FECA is not covered by budgetary resources.

ACTUARIAL COST METHOD USED AND ASSUMPTIONS

The DAF GF's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each FY. The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases; plus a component for incurred, but not reported claims.

NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

The DOL calculates the future workers’ compensation liability using wage inflation factors (e.g., Cost of Living Adjustment (COLA)) and medical inflation factors [e.g., Consumer Price Index Medical (CPI-M)], which were applied to the calculation of projected future benefits. The actual rates for these factors for the Charge-Back Year (CBY) 2024 were also used to adjust the methodology’s historical payments to current year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury’s Yield Curve for the Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2024. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES	
For Wage Benefits:	2.6% in Year 1 and Years thereafter
For Medical Benefits:	2.4% in Year 1 and Years thereafter

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2024	N/A	N/A
2025	4.3%	2.6%
2026	4.4%	2.9%
2027	4.2%	3.2%
2028	3.2%	3.4%
2029	2.6%	4.0%
2030	2.4%	3.9%
2031 and thereafter	2.3%	3.9%

The model’s resulting projections were analyzed to ensure 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 2024 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in the FY 2025 projection to the average pattern for the projections of the most recent three years.

OTHER BENEFITS

Federal Employee and Veteran Benefits Payable represents other post-employment benefits, which can include salary continuation, severance benefits, counseling, training, funded unemployment liability for federal employees, funded FECA liability, and the current portion of veterans’ disability compensation benefits. These are not actuarial liabilities. Federal Employee and Veteran Benefits Payable is covered by budgetary resources.

Other Benefits – Other represents Accrued Unfunded Leave, Unfunded Annual Leave, and Accrued Funded Payroll. Accrued Unfunded Leave and Unfunded Annual Leave are based on the employees’ leave balances at the end of the FY. The DAF GF had a balance of \$3.3 billion as of September 30, 2024. Accrued Funded Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2024. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are

NOTE 13 *FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE*

adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used. Accrued Funded Payroll also includes the life insurance program: Federal Employee Group Life Insurance plan, which is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits Program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Office of Personnel Management, as the administering agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The DAF GF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Any portions of accrued leave for which funding is not available are recorded as Accrued Unfunded Annual Leave.

Refer to [Note 15, Other Liabilities](#), for description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
ENVIRONMENTAL LIABILITIES—OTHER THAN INTRAGOVERNMENTAL		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	\$ 8,935,605	\$ 8,534,183
Active Installations—Military Munitions Response Program	378,453	344,833
Total Accrued Environmental Restoration Liabilities	\$ 9,314,058	\$ 8,879,016
Other Accrued Environmental Liabilities – Non-Base Realignment and Closure		
Environmental Corrective Action	\$ 340,578	\$ 357,591
Environmental Closure Requirements	668,414	617,452
Asbestos	2,122,951	2,032,775
Total Other Accrued Environmental Liabilities – Non-Base Realignment and Closure	\$ 3,131,943	\$ 3,007,818
Base Realignment and Closure Installations		
Installation Restoration Program	\$ 3,266,332	\$ 2,459,899
Military Munitions Response Program	19,597	19,710
Environmental Corrective Action / Closure Requirements	122	122
Asbestos	100	140
Total Base Realignment and Closure Installations	\$ 3,286,151	\$ 2,479,871
Environmental Disposal for Military Equipment / Weapons Programs		
Non-Nuclear Powered Military Equipment	\$ 779,759	\$ 742,236
Total Environmental Disposal for Military Equipment / Weapons Programs	\$ 779,759	\$ 742,236
Total Environmental and Disposal Liabilities	\$ 16,511,911	\$ 15,108,941

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, closure, and post-closure costs resulting from past transactions or events. The DAF GF is required to include costs for cleaning up contamination resulting from past waste disposal practices, leaks, spills, and other past activities, which has created a public human health or environmental risk. The DAF GF is also required to include costs for performing non-routine removal of hazardous waste and other associated environmental closure and post-closure activities explicitly required by permit or other policy or law at the time of asset decommissioning.

APPLICABLE LAWS AND REGULATIONS OF CLEANUP, CLOSURE, AND/OR DISPOSAL REQUIREMENTS

The following laws and regulations affect the activities for cleanup, closure, and/or disposal requirements:

- » *Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)*
- » *Superfund Amendments and Reauthorization Act*
- » *Clean Water Act*
- » *Safe Drinking Water Act*

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

- » *Clean Air Act*
- » *Resource Conservation and Recovery Act (RCRA)*
- » *Toxic Substances Control Act*
- » *Atomic Energy Act*
- » *Nuclear Waste Policy Act*
- » *Low Level Radioactive Waste Policy Amendments Act*

TYPES OF ENVIRONMENTAL LIABILITIES AND DISPOSAL LIABILITIES IDENTIFIED

The DAF GF does not report environmental liabilities for cases in which another DoD entity serves as the DoD lead agent or executive agent. The following DoD entities serve as the DoD lead or executive agent and are responsible for identifying funding requirements as well as disclosing financial information regarding the progress of programs: the U.S. Army Corps of Engineers is the lead agent for Formerly Used Defense Sites at active installations, the Department of the Navy is the lead agent for nuclear-powered military equipment and spent nuclear fuel, the Department of the Army is the executive agent for the Chemical Weapons Disposal Program, and the Department of the Navy and the Defense Logistics Agency are responsible for the Red Hill Response.

The DAF GF has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program (DERP) sites at active installations and Base Realignment and Closure (BRAC) installations. The DAF GF has additional cleanup, closure, and post-closure requirements for active installations not covered by DERP and weapon systems programs. All cleanup, closure, post-closure, and disposal efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable. If fully remediated within the current FY, environmental conditions that result from current operations and require immediate cleanup (e.g., de minimis spills or routine hazardous waste removal) are not considered Environmental Liabilities, but part of Current Operating Expenses.

Accrued Environmental Restoration Liabilities

The DAF GF has estimated costs related to remedial actions eligible for DERP funding at 196 active installations. Accrued Environmental Restoration Liabilities consists of costs related to: 1) Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR); and 2) Active Installations – Military Munitions Response Program (MMRP).

As of September 30, 2024, the DAF GF estimated and reported liabilities associated with 2,699 Active Sites – IRP and BD/DR. These remedial actions may address CERCLA (e.g., hazardous substances, pollutants, and contaminants), RCRA (e.g., hazardous waste or hazardous constituents), or demolition and removal of unsafe buildings and structures at facilities or sites.

As of September 30, 2024, the DAF GF estimated and reported liabilities associated with 233 Active Sites – MMRP. These response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) may address military munitions (e.g., Unexploded Ordnance or Waste Military Munitions) or the chemical residues of munitions at locations other than operational ranges.

Other Accrued Environmental Liabilities – Non-Base Realignment and Closure

The DAF GF includes estimated cleanup, closure, and post-closure costs ineligible for DERP funding. Other Accrued Environmental Liabilities – Non-BRAC (OEL) consists of costs related to: 1) Environmental Corrective Action (ECA); 2) Environmental Closure Requirements (ECR); and 3) Asbestos.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Base Realignment and Closure Installations

The DAF GF has estimated costs related to BRAC Installations. BRAC Installations consist of costs related to: 1) 743 IRP sites; 2) 27 MMRP sites across 40 BRAC Installations; 3) ECA and ECR requirements at one BRAC installation; and 4) Asbestos requirements at one BRAC installation.

Congress has authorized five rounds of base closures (1988, 1991, 1993, 1995, and 2005) for a portion of DAF installations through the BRAC process. Annually, Congress allocates appropriations through the DoD to fund progress for cleanup commitments from these decommissioned DAF installations. Once an installation is closed, the DERP liabilities for these sites are transferred to the BRAC program. The DAF GF may no longer own these assets but reports liabilities where the DAF GF has clean-up responsibility.

Environmental Disposal for Military Equipment / Weapons Programs

Non-nuclear powered military equipment is comprised of aircraft (fixed-wing aircraft, remotely piloted aircraft, vertical take-off aircraft, landing aircraft, and helicopters), aircraft pods, satellites, Intercontinental Ballistic Missiles (ICBMs), and Mine-Resistant Ambush Protected (MRAP) vehicles.

As of September 30, 2024, the DAF GF estimated and reported liabilities associated with non-nuclear powered military equipment, specifically aircraft, pods, ICBMs, and MRAP vehicles.

The DAF GF determined that no future outflows of cash exist for the environmental disposal of satellites, as all satellites and their components are destroyed before reentry into the Earth's atmosphere; thus no liability is reported for FY 2024.

METHODS FOR ASSIGNING TOTAL CLEANUP, CLOSURE, AND/OR DISPOSAL COSTS TO CURRENT OPERATING PERIODS

Accrued Environmental Restoration Liabilities

Active Installations – Installation Restoration Program and Building Demolition / Debris Removal and Active Installations – Military Munitions Response Program

The DAF GF uses one or more of the following methods to estimate the Cost-to-Complete (CTC) cleanup and disposal activities: 1) pre-negotiated contract costs; 2) historical costs; 3) engineering estimates; and 4) cost estimating software [e.g., Remedial Action Cost Engineering and Requirements (RACER®)]. A valid engineering estimate is an estimate of a future cost for similar scope or a past paid cost for which existing invoices cannot be provided to back it up (e.g., monthly utility costs in a spreadsheet). It has a prior year or current year cost basis which is determined from the date on the cost reference. In addition to pre-set values included in the RACER® software, the DAF GF can add User Defined Costs (UDCs) to customize and refine estimates within RACER®. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and BD/DR, and MMRP, inclusive of program management costs. For projects with an undefined duration, the DAF GF uses a rolling 30-year period. These environmental liabilities are not associated with an asset having a useful life; thus, the total estimated cleanup, closure, and/or disposal cost is recognized upon identification of the liability.

Other Accrued Environmental Liabilities – Non-Base Realignment and Closure

Environmental Corrective Actions

The DAF GF utilizes the same methodologies to estimate OEL – ECAs as those used for Active Installations – IRP and BD/DR and Active Installations – MMRP described above. OEL – ECA environmental liabilities are also recognized upon identification of the liability and not associated with an asset having a useful life.

Environmental Closure Requirements

The DAF GF uses one or more of the following approaches to generate estimates for assets with OEL - ECR: 1) cost estimating software (e.g., RACER®); 2) historical costs; and 3) engineering estimates. Estimates leverage industry-

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

standard unit costs and cost factors, or comparable historical project costs, bids, and expenditures. In addition to pre-set values included in the RACER® software, the DAF GF can add UDCs to customize and refine estimates within RACER®. However, reliable information required to calculate a closure or post-closure cost is not available for all OEL - ECR assets identified, and thus the reported balance reflects the OEL - ECR assets that are probable and reasonably estimable given the data available as of September 30, 2024.

Asbestos

The DAF GF uses one or more of the following approaches to generate survey and abatement estimates for assets which are likely to contain Asbestos: 1) cost estimating software (e.g., RACER®); and 2) historical costs. However, reliable information required to calculate a survey and abatement cost is not available for all OEL – Asbestos assets identified. Thus, the reported balance reflects the OEL – Asbestos assets that are probable and reasonably estimable given the data available as of September 30, 2024.

Data reports as of September 30, 2024, were not accessible for estimation. Therefore, OEL – ECR and OEL – Asbestos estimates reflect data available as of June 30, 2024.

Base Realignment and Closure Installations

Installation Restoration Program, Military Munitions Response Program, Environmental Corrective Action / Closure Requirements, and Asbestos

The DAF GF utilizes similar methodologies to estimate BRAC Installations related to IRPs and MMRPs as that of Active Installations - IRP and BD/DR and Active Installations - MMRP. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and MMRP, inclusive of program management costs. For projects with an undefined duration, a rolling 30-year period is used.

BRAC - ECA, BRAC - ECR, and BRAC - Asbestos liabilities are not associated with an asset having a remaining useful life; thus, the total estimated cleanup, closure, and post-closure cost is recognized upon identification of the liability.

Environmental Disposal for Military Equipment / Weapons Programs

Non-Nuclear Powered Military Equipment

The DAF GF uses one or more of the following approaches to generate estimates for Military Equipment/Weapons Programs (MEWP) assets: 1) historical disposal labor data and estimates for the disposal of hazardous material; 2) industry-standard cost factors; or 3) comparable historical projects, bids, and expenditures. However, reliable information required to calculate a closure cost is not available for all MEWP assets identified, and thus the reported balance reflects the MEWP assets that are probable and reasonably estimable given the data available as of September 30, 2024.

UNCERTAINTY REGARDING ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES

The DAF GF has unrecognized portions of the estimated total environmental liabilities as of September 30, 2024, as detailed below.

The environmental liabilities for the DAF GF 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 vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if additional investigation of the environmental sites disclose contamination different than what is known at the time of the estimates.

While business rules have been developed governing the use of RACER® for estimating Accrued Environmental Restoration Liabilities, BRAC, and OEL, the DAF GF is continuing to develop a process to compare estimated

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

environmental liabilities to subsequent actual expenditures. The actual costs to estimates comparison will support the validity of RACER[®]-derived estimates and drive refinements to the estimation methodology, as appropriate.

For OEL - ECA, specifically Environmental Response at Operational Ranges (EROR), Title 40 Code of Federal Regulations, *Environmental Protection Agency*, § 266.202, exempts military munitions on active and inactive military ranges from the definition of hazardous waste. The Environmental Protection Agency (EPA) Regulation effectively excludes military munitions on an active military range from the definition of solid waste until a formal decision to close the range occurs or Munitions Constituents (MCs) migrate off the military range. Therefore, these military munitions do not meet the criteria of an environmental liability. The DAF GF has an on-going program to assess potential off-range migration of MCs and, as of September 30, 2024, the DAF GF has not identified off-range migration that is probable and measurable.

MATERIAL CHANGES IN TOTAL ESTIMATED CLEANUP, CLOSURE, AND POST-CLOSURE COSTS DUE TO CHANGES IN LAWS, TECHNOLOGY, OR PLANS, AND THE PORTION OF THE CHANGE IN ESTIMATES THAT RELATES TO PRIOR PERIOD OPERATIONS

Estimated environmental liabilities are adjusted each year for price growth (inflation) and increases in labor rates and materials. As of September 30, 2024, there was a 9.3% increase in environmental liability estimates due to price changes, new laws, regulations, agreements with regulatory agencies, and advances in technology. The DAF GF's liability may change further due to future changes in laws, regulations, agreements with regulatory agencies, and advances in technology particularly regarding projected changes in Per- and Polyfluoroalkyl Substances (PFAS) regulation.

NATURE OF ESTIMATES AND INFORMATION REGARDING POSSIBLE CHANGES DUE TO INFLATION, TECHNOLOGY, OR APPLICABLE LAWS AND REGULATIONS

The DAF GF applied inflation factors to bring historical costs to current-year dollars for the following:

1. For Accrued Environmental Restoration Liabilities and OEL, in accordance with Air Force Manual 65-502, *Inflation* (October 30, 2018), the DAF GF utilizes inflation factors from the DAF GF raw inflation indices which are based on the OSD raw inflation rates for Operations and Maintenance.
2. For BRAC, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, *Inflation Guidance – FY 2025 President's Budget* (December 18, 2023), the DAF GF utilizes inflation factors based on OSD raw inflation rates for Military Construction.
3. For MEWP - ICBMs, in accordance with Air Force Manual 65-502, *Inflation* (October 30, 2018), to perform this inflation adjustment, the DAF GF used Consumer Price Index (CPI) Data from the Bureau of Labor Statistics. Specifically, the total year CPI averages for 1998 (the year estimates were originated) and 2022 (the most recent full calendar year of CPI data available) to develop an inflation multiplier.

Section 312 of the FY 2024 *National Defense Authorization Act* modifies Section 2700(4) of Title 10, U.S. Code and provides Air National Guard (ANG) inclusion under DERP. In FY 2024, OSD issued a memo allowing the transfer of ANG Restoration Program sites back into the DAF Restoration Program. The memo allowed the transfer to begin immediately, and ANG sites will continue to transition to DERP through FY 2025. As of September 30, 2024, 320 sites remain in the ANG Restoration Program. Refer to the [Emerging Contaminants](#) Section for potential impacts for emerging contaminants due to applicable laws and regulations.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

UNRECOGNIZED PORTION OF ESTIMATED TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST ASSOCIATED WITH GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF GF uses either the accretion method or the non-accretion method to calculate estimated environmental liabilities associated with General Property, Plant, and Equipment. Under the accretion method, a liability is recognized for the estimated total cleanup, closure, and post-closure cost that is attributable to the portion of the physical capacity of an asset used or that portion of the estimated useful life of an asset that has passed since the asset was placed into service. The accretion method results in an unrecognized portion of the total cleanup, closure, and post-closure costs based on the remaining useful life or capacity of the underlying asset. Under the non-accretion method, a liability is recognized for the total estimated cleanup, closure, and post-closure cost. Under both methods, the total cleanup, closure, and post-closure costs are remeasured at least annually based on current costs.

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST (NON-ACCRETION METHOD)

Estimates associated with buildings, structures, and linear structures (i.e., Real Property) should be calculated under the accretion method based on asset inventory records maintained in the Accountable Property Systems of Record (APSRs). Real Property closure and post-closure cost estimates for OEL - ECR and OEL - Asbestos are dependent on the accuracy and completeness of the underlying APSR records, including asset attributes (e.g., useful life and placed in service dates). These APSR records are currently not considered to be accurate and complete to support using the accretion method. An analysis was performed to evaluate the difference between accreting and not accreting, which determined the difference to be not significant to the total Environmental and Disposal Liabilities (E&DL) balance. As a result, OEL - ECR and OEL - Asbestos do not use the accretion method; instead, the total estimated environmental closure and post-closure costs are recorded, even where accounting standards would require accreting based on the useful life.

Total cleanup, closure, and post-closure costs are recognized for environmental liabilities at BRAC Installations.

Total cleanup, closure, and post-closure costs are recognized for environmental liabilities associated with government-acknowledged events or government-related events for Accrued Environmental Restoration Liabilities and OEL - ECA, inclusive of Overseas Remediation, non-DERP eligible ANG sites, and EROR.

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST (ACCRETION METHOD)

Cleanup, closure, and post-closure cost estimates for environmental disposal for MEWP (aircraft, Pods, MRAPs, and ICBMs) uses the accretion method. In conformance with Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, the total estimated closure cost for each of these Military Equipment asset types is adjusted by the percentage of depreciation based on the useful life of the underlying asset. The result of this calculation is the recognized portion of the total environmental disposal liability. Estimates are remeasured at least annually to reflect current prices of goods and services (i.e., labor rates).

The DAF GF may have an unrecognized portion for OEL – ECR Oil Water Separators (OWSs). The DAF GF uses the median OWS capacity of the range of data collected due to limitations of the Real Property APSR records. The median OWS capacity produced a better estimate than any other amount within the range which was \$54.4 million. The high end of the OWS capacity range produced an estimate up to \$196.6 million.

The DAF GF has an unrecognized portion of the estimated total cleanup, closure, and post-closure cost associated with environmental disposal for MEWP. The DAF GF uses the useful life of these underlying asset categories to

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

determine an annual amount of the total estimated cleanup, closure, and post-closure cost to be expensed each year. The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is \$68.4 million as of September 30, 2024.

UNRECORDED LIABILITIES FOR WHICH ESTIMATES ARE NOT MEASURABLE

The DAF GF has an unrecorded liability for a portion of OEL – ECR Water Wells. Liabilities will be reported for these OEL – ECR assets, as applicable, when sufficient data becomes available.

Refer to the [Emerging Contaminants](#) Section for unrecorded liabilities related to emerging contaminants.

ONGOING CORRECTIVE ACTION IMPACTS

Due to ongoing implementation of corrective action plans for existence and completeness of Real Property inventory, updates to OEL balances are expected to continue through FY 2026. Until full implementation of these programmatic changes is complete, balances will reflect only a portion of the liabilities.

Additionally, ongoing implementation of corrective actions plans related to verification, validation, and accreditation of the cost estimation software used to produce liabilities, retrospective reviews, and environmental cleanup costs associated with military construction are expected to continue through FY 2026. The results of these corrective action plans may impact the E&DL balance in future periods.

EMERGING CONTAMINANTS

Emerging contaminants are chemicals and materials that have pathways to enter the environment and present real or potential unacceptable human health and/or environmental risks and either: 1) do not have peer-reviewed human health standards; or 2) standards or regulations are evolving due to new science, detection capabilities, or pathways.

PFAS are a large class of man-made chemicals found in many consumer products including film aqueous film-forming foam (AFFF) historically used by the DoD to fight fires. While the DoD is only one of many users of AFFF, there is significant attention on its use and the subsequent potential impact on human health and the environment. PFAS are classified as emerging contaminants because regulatory standards are still evolving.

The EPA published a final rule for six PFAS in the Federal Register on April 26, 2024, designating perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS) hazardous substances and establishing individual Maximum Contaminant Levels of 4 parts-per-trillion (ppt) each for PFOA and PFOS, 10 ppt each for perfluorohexanesulfonic acid (PFHxS), perfluorononanoic acid (PFNA), and hexafluoropropylene oxide dimer acid (HFPO-DA) (commonly known as GenX), and a Hazard Quotient of 1.0 for a mixture of two or more of PFHxS, PFNA, HFPO-DA, and perfluorobutanesulfonic acid. As the DoD continues its investigations and the EPA and state regulatory entities continue to refine and promulgate standards, it is likely that additional costs for remediation will become probable and reasonably estimable, which could be material to the financial statements. The DAF GF is working to update cost estimates in accordance with DoD Guidance "Prioritization of Department of Defense Cleanup Actions to Implement the Federal Drinking Water Standards for Per- and Polyfluoroalkyl Substances Under the DERP," issued on September 3, 2024, in response to the EPA Final Rule.

The DoD's investigation work and mitigation actions are guided by CERCLA and applicable state laws. Other emerging contaminants could be identified in the future and would follow a similar process.

As of September 30, 2024, PFAS liabilities are estimated and reported through the Remedial Investigation/ Feasibility Study (RI/FS), except where RI is completed. Although costs for post-RI/FS actions are probable, such costs are not yet reasonably estimable because the extent of the PFAS contamination has not been determined. However, as additional data is collected and the extent of PFAS contamination is further defined, it is reasonably possible post-RI/FS costs could increase significantly. PFAS liabilities may include remediation and monitoring

NOTE 14 *ENVIRONMENTAL AND DISPOSAL LIABILITIES*

costs, where the DoD Guidance prioritizes a response and analytical data is available to define the minimum extent of PFAS contamination.

For additional information on activities related to legal environmental and disposal loss contingencies, refer to [Note 17, *Commitments and Contingencies*](#).

NOTE 15 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Disbursing Officer Cash	\$ 81,560	\$ 0	\$ 81,560
Liabilities for Non-Entity Assets	1,787	270,612	272,399
Other Liabilities	753,164	0	753,164
Subtotal	\$ 836,511	\$ 270,612	\$ 1,107,123
Other Liabilities Reported on Note 13, Federal Employee and Veteran Benefits Payable	170,068	100,586	270,654
Total Intragovernmental Other Liabilities	\$ 1,006,579	\$ 371,198	\$ 1,377,777
Other than Intragovernmental Other Liabilities			
Withholdings Payable	\$ 4,653	\$ 0	\$ 4,653
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	276,707	0	276,707
Liability for Clearing Accounts	34	0	34
Contract Holdbacks	150,645	0	150,645
Contingent Liabilities	3,000	403,028	406,028
Other Liabilities with Related Budgetary Obligations	6,455,304	0	6,455,304
Total Other than Intragovernmental Other Liabilities	\$ 6,890,343	\$ 403,028	\$ 7,293,371
Total Other Liabilities	\$ 7,896,922	\$ 774,226	\$ 8,671,148

NOTE 15 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Disbursing Officer Cash	\$ 94,117	\$ 0	\$ 94,117
Liabilities for Non-Entity Assets	0	24,264	24,264
Other Liabilities	701,227	0	701,227
Subtotal	\$ 795,344	\$ 24,264	\$ 819,608
Other Liabilities Reported on Note 13, Federal Employee and Veteran Benefits Payable	151,828	96,954	248,782
Total Intragovernmental Other Liabilities	\$ 947,172	\$ 121,218	\$ 1,068,390
Other than Intragovernmental Other Liabilities			
Withholdings Payable	\$ 7,830	\$ 0	\$ 7,830
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	1,092,666	0	1,092,666
Liability for Clearing Accounts	(206)	0	(206)
Contract Holdbacks	109,158	0	109,158
Contingent Liabilities	3,000	216,209	219,209
Other Liabilities with Related Budgetary Obligations	9,071,413	(23,564)	9,047,849
Total Other than Intragovernmental Other Liabilities	\$ 10,283,861	\$ 192,645	\$ 10,476,506
Total Other Liabilities	\$ 11,231,033	\$ 313,863	\$ 11,544,896

INTRAGOVERNMENTAL OTHER LIABILITIES

Disbursing Officer 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, and similar notes advanced from the Treasury under various authorities. Disbursing Officer Cash is non-entity, restricted cash.

Intragovernmental Liabilities for non-entity assets represents offsetting liabilities for non-entity assets where the DAF GF is acting on behalf of another federal entity.

Other Liabilities represent amounts reported for Judgment Fund. Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to [Note 17, Commitments and Contingencies](#).

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single note in accordance with the streamlined Balance Sheet format (for additional information, refer to [Note 1.AE., Significant Accounting Policies - Standardized Balance Sheet, the Statement of Changes in Net Position, and Related Footnotes – Comparative Year Presentation](#)). Certain United States Standard General Ledger accounts on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on [Note 13, Federal Employee and Veteran Benefits Payable](#), while

NOTE 15 OTHER LIABILITIES

others are reported on [Note 15, Other Liabilities](#). The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on [Note 13, Federal Employee and Veteran Benefits Payable](#), are aggregated and included above as the line Other Liabilities Reported on [Note 13, Federal Employee and Veteran Benefits Payable](#). This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Liabilities Reported on [Note 13, Federal Employee and Veteran Benefits Payable](#), include Intragovernmental Deposit Funds and Suspense Accounts, *Federal Employees' Compensation Act* (FECA) Reimbursement to the Department of Labor (DOL), Employer Contribution and Payroll Taxes Payable, and unemployment compensation liabilities.

- » Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing 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 and liabilities that offset undistributed disbursements. The net amount of these may be presented as an overall positive or negative balance.
- » FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2024 and FY 2025 unbilled amounts, including both incurred and an estimated accrual. Refer to [Note 13, Federal Employee and Veteran Benefits Payable](#), for the estimated FECA actuarial liability.
- » Employer Contribution and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Withholdings Payable consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2024. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Withholdings Payable also include the life insurance program, Federal Employee Group Life Insurance plan, which is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits Program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Office of Personnel Management (OPM), as the administering agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees, and the amount of benefit received. The DAF GF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM.

For additional information on Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts, refer above.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2024, Contract Holdbacks included \$150.6 million for contracted progress payments based on cost as defined in the Federal Acquisition Regulation.

Contingent Liabilities is comprised of \$406.0 million in Contingent Legal Liabilities as of September 30, 2024. For additional information, refer to [Note 17, Commitments and Contingencies](#).

Other Liabilities with Related Budgetary Obligations primarily consists of accrued estimated costs related to the construction of aircraft and satellites. The DAF GF recorded additional accruals in FY 2024 based on percentage of completion data provided by vendors.

NOTE 15 OTHER LIABILITIES

ADVANCES FROM OTHERS AND DEFERRED REVENUE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Intragovernmental	\$ 2,961,272	\$ 2,572,231
Other than Intragovernmental	\$ 509,739	\$ 430,549

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF GF incurs or acquires on behalf of another organization.

NOTE 16 LEASES

Operating Leases for Land and Buildings (Real Property leases) include leases with Department-level agencies, state and local municipalities, private corporations, and the general public. The nature of Real Property leases spans a wide variety of mission-critical objectives based upon the needs of the DAF GF, Air National Guard or Air Reserve Bases, and Installations. Real Property leases may include leases for administrative, storage, and medical buildings on an installation, use of land acreage surrounding an installation gate and/or border, and use of various equipment and linear structures such as weather instruments, airport towers, antennas, and radar sites.

Other leases are comprised of commercial vehicle leases between the DAF GF and the general public, and include leases with dealerships and rental car companies. All leases are for one year and are renewed once funds become available.

Starting in FY 2024, in accordance with Statement of Federal Financial Accounting Standards 54, *Leases*, the DAF GF is required to report a right-to-use lease asset and a corresponding lease liability for material non-intragovernmental, non-short-term contracts when the DAF GF has the right to control access to and/or obtain economic benefits from the use of real property, equipment, or other asset. The DAF GF is still implementing processes to identify and value right-to-use assets and lease liabilities.

NOTE 17 COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The DAF GF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations and generally relate to environmental torts, equal employment opportunity matters, personnel injury, property damage, and contractual matters for which the ultimate disposition is unknown.

In the event of an unfavorable judgment against the Federal Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In some cases, the DAF GF does not have to reimburse the Judgment Fund. For non-reimbursable Judgment Fund payments, in accordance with the Federal Accounting Standards Advisory Board Interpretation of Federal Accounting Standards 2: *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* (Interpretation 2), once the Judgment Fund has paid a settlement, the contingent legal liability should no longer be reported and an imputed cost and a corresponding imputed financing source in the amount of the payment should be reported. The cumulative FY amount of non-reimbursable settlements paid by the Judgment Fund as of September 30, 2024 and 2023 was \$28.2 million and \$166.7 million, respectively. Reimbursement by the DAF GF to the Judgment Fund is required for cases under either the *Contracts Disputes Act* or the *Notification and Federal Employee Antidiscrimination and Retaliation Act*. Once the claim is either settled or a court judgment is assessed against the DAF and the Judgment Fund is determined to be the appropriate source for the payment of the claim, the contingent legal liability (CLL) should be removed from the DAF's financial statements and an "other liability" amount is recognized in the amount to be paid by the Judgment Fund. The Judgment Fund liability as of September 30, 2024 and 2023 was \$753.2 million and \$701.2 million, respectively, as reported in Other Liabilities on the Balance Sheet.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. A contingent liability should be recorded for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for CLL are included within the Contingent Liabilities amount reported in [Note 15, Other Liabilities](#), Contingent Liabilities as of September 30, 2024 and 2023.

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED) ESTIMATED RANGE OF LOSS		
	ACCRUED LIABILITIES	LOWER END	UPPER END
Contingent Legal Liabilities Probable	\$ 406,028	\$ 406,028	\$ 660,866
Reasonably Possible	\$ 0	\$ 165,868	\$ 244,866

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED) ESTIMATED RANGE OF LOSS		
	ACCRUED LIABILITIES	LOWER END	UPPER END
Contingent Legal Liabilities Probable	\$ 219,209	\$ 219,209	\$ 225,851
Reasonably Possible	\$ 0	\$ 130,821	\$ 410,823

NOTE 17 COMMITMENTS AND CONTINGENCIES

As of September 30, 2024, legal claims exist for which an adverse outcome was assessed as either probable or reasonably possible but for which the estimated loss amount or the range of loss cannot be reasonably measured. Consequently, no amount has been recorded as a contingent liability for these claims. The claimed amounts for these claims evaluated as probable totaled approximately \$29.0 million and \$171.2 million as of September 30, 2024 and 2023, respectively; the claimed amounts for these claims evaluated as reasonably possible totaled approximately \$795.9 million and \$809.3 million as of September 30, 2024 and 2023, respectively. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information through the legal process of discovery, comparable cases establishing precedent, or other factors is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the DAF GF's financial position or results of operations.

As of September 30, 2024, Air Force held legal claims related to United States Army Corps of Engineers construction projects funded by Air Force sub-allotted funds. An adverse outcome was assessed as probable and the estimate of loss was determined to be \$3.0 million, with a range of \$3.0 million to \$244.3 million. An adverse outcome was assessed as reasonably possible and the range of the estimate of loss was determined to be \$0 to \$76.2 million. These amounts are included within the table above.

OTHER CONTINGENCIES

In FY 2024, the DAF GF determined that internal administrative claims (IACs) representing claims being adjudicated within the DAF GF and not through a court, board, outside agency, or other third-party legal entity with the authority to adjudicate the rights and obligations of the parties involved, should not be included in the process to determine the CLL. As of September 30, 2024, the DAF GF documented IACs within the Office of the Judge Advocate General relating to foreign claims, general torts, medical law, aviation, and environmental torts. IACs are analyzed by litigators to determine whether, in accordance with Generally Accepted Accounting Principles, they must be accrued and/or disclosed as a threatened/unasserted litigation contingent liability. The DAF GF conducted an analysis of IACs as of September 30, 2024 to estimate the potential unfavorable outcome of these claims based on the average payout of IACs for the current and two previous years. The analysis included total IAC claimed amounts of \$1.6 billion outstanding and \$1.4 billion outstanding as of September 30, 2024 and 2023, respectively, with an estimated potential loss of \$4.9 million and \$5.2 million, respectively, based on the historical average payout rate. In the event of a loss, most of these claims will be paid by the Judgment Fund, and all such payments will be on a non-reimbursable basis.

In addition to the administrative claims described in the preceding paragraph, it is the DAF GF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF GF executes project agreements pursuant to the cooperative activity agreements framework with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF GF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

For additional information on activities related to non-legal environmental and disposal loss contingencies, refer to [Note 14, Environmental and Disposal Liabilities](#).

CONTRACTUAL OBLIGATIONS

The DAF GF 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 DAF GF's automated system processes have limited capability to capture these potential liabilities. Therefore, the amounts reported may not fairly present the DAF GF commitments and contingencies.

NOTE 17 *COMMITMENTS AND CONTINGENCIES*

COMMITMENTS

The amount of obligations related to cancelled appropriations for which the DAF GF has a contractual commitment for payment was \$4.4 billion and \$2.9 billion as of September 30, 2024 and 2023, respectively.

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Balance Sheet - Funds from Dedicated Collections

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Intragovernmental				
Fund Balance with Treasury	\$ 16,284	\$ 3,689	\$ 21,670	\$ 41,643
Investments, Net	7	0	0	7
Total Intragovernmental	\$ 16,291	\$ 3,689	\$ 21,670	\$ 41,650
Other than Intragovernmental				
Accounts Receivable, Net	\$ 0	\$ 0	\$ 0	\$ 0
General Property, Plant, and Equipment, Net	1,342	0	0	1,342
Total Other than Intragovernmental	\$ 1,342	\$ 0	\$ 0	\$ 1,342
Total Assets	\$ 17,633	\$ 3,689	\$ 21,670	\$ 42,992
Intragovernmental				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Total Intragovernmental	\$ 0	\$ 0	\$ 0	\$ 0
Other than Intragovernmental				
Accounts Payable	\$ 129	\$ (6)	\$ 0	\$ 123
Federal employee salary, leave, and benefits payable	0	6	0	6
Other Liabilities:				
Other	0	0	0	0
Total Other Liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Total Other than Intragovernmental	\$ 129	\$ 0	\$ 0	\$ 129
Total Liabilities	\$ 129	\$ 0	\$ 0	\$ 129
Cumulative Results of Operations	\$ 17,504	\$ 3,689	\$ 21,670	\$ 42,863
Total Liabilities and Net Position	\$ 17,633	\$ 3,689	\$ 21,670	\$ 42,992

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Balance Sheet - Funds from Dedicated Collections

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2023 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Intragovernmental				
Fund Balance with Treasury	\$ 17,468	\$ 3,442	\$ 20,139	\$ 41,049
Investments, Net	8	0	0	8
Total Intragovernmental	\$ 17,476	\$ 3,442	\$ 20,139	\$ 41,057
Other than Intragovernmental				
Accounts Receivable, Net	\$ 3	\$ 0	\$ 0	\$ 3
General Property, Plant, and Equipment, Net	1,341	0	0	1,341
Total Other than Intragovernmental	\$ 1,344	\$ 0	\$ 0	\$ 1,344
Total Assets	\$ 18,820	\$ 3,442	\$ 20,139	\$ 42,401
Intragovernmental				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Total Intragovernmental	\$ 0	\$ 0	\$ 0	\$ 0
Other than Intragovernmental				
Accounts Payable	\$ 396	\$ 515	\$ 472	\$ 1,383
Federal employee salary, leave, and benefits payable	0	0	0	0
Other Liabilities:				
Other	0	0	0	0
Total Other Liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Total Other than Intragovernmental	\$ 396	\$ 515	\$ 472	\$ 1,383
Total Liabilities	\$ 396	\$ 515	\$ 472	\$ 1,383
Cumulative Results of Operations	\$ 18,424	\$ 2,927	\$ 19,667	\$ 41,018
Total Liabilities and Net Position	\$ 18,820	\$ 3,442	\$ 20,139	\$ 42,401

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Statement of Net Cost - Funds from Dedicated Collections

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Gross Program Costs	\$ 4,031	\$ 787	\$ 3,506	\$ 8,324
Less: Earned Revenue	0	(1,549)	(5,509)	(7,058)
Net Program Costs	\$ 4,031	\$ (762)	\$ (2,003)	\$ 1,266
Total Intragovernmental	\$ 4,031	\$ (762)	\$ (2,003)	\$ 1,266

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2023 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Gross Program Costs	\$ 8,153	\$ 1,784	\$ 1,012	\$ 10,949
Less: Earned Revenue	0	(1,065)	0	(1,065)
Net Program Costs	\$ 8,153	\$ 719	\$ 1,012	\$ 9,884
Total Intragovernmental	\$ 8,153	\$ 719	\$ 1,012	\$ 9,884

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Statement of Changes in Net Position - Funds from Dedicated Collections

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Beginning Balance	\$ 18,424	\$ 2,927	\$ 19,667	\$ 41,018
Beginning Balance, as Adjusted	\$ 18,424	\$ 2,927	\$ 19,667	\$ 41,018
Donations and Forfeitures of Cash and Cash Equivalents	3,111	0	0	3,111
Other	0	0	0	0
Less: Net Cost of Operations	4,031	(762)	(2,003)	1,266
Net Change in Cumulative Results of Operations	\$ (920)	\$ 762	\$ 2,003	\$ 1,845
Net Position, End of Period	\$ 17,504	\$ 3,689	\$ 21,670	\$ 42,863

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Beginning Balance	\$ 20,908	\$ 3,646	\$ 20,679	\$ 45,233
Beginning Balance, as Adjusted	\$ 20,908	\$ 3,646	\$ 20,679	\$ 45,233
Donations and Forfeitures of Cash and Cash Equivalents	5,669	0	0	5,669
Other	0	0	0	0
Less: Net Cost of Operations	8,153	719	1,012	9,884
Net Change in Cumulative Results of Operations	\$ (2,484)	\$ (719)	\$ (1,012)	\$ (4,215)
Net Position, End of Period	\$ 18,424	\$ 2,927	\$ 19,667	\$ 41,018

Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS 43, *Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government’s general revenue.

The DAF GF’s Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources, provided to the Government by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the DAF GF’s general revenues. The DAF GF and other component entities are not responsible for carrying out the program financed with revenues and other financing sources that are dedicated collections.

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

All of the tables above are presented on a combined basis and relate solely to Funds from Dedicated Collections. For additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts, refer to [Note 20, Disclosures Related to the Statement of Changes in Net Position](#).

GENERAL GIFT FUND [10 U.S. CODE (U.S.C.) § 2601]

The DAF GF 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 DAF GF'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 Treasury securities, and any interest earned on these securities is accumulated in the fund.

WILDLIFE CONSERVATION FUND [16 U.S.C. § 670A]

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 non-consumptive 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 non-appropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

AIR FORCE CADET FUND [10 U.S.C. § 9459]

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 DAF GF 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.

NOTE 19 DISCLOSURES RELATED TO THE STATEMENT OF NET COST

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	RESTATE 2023 (UNAUDITED)
Major Programs		
Air Force Materiel Command		
Gross Cost	\$ 143,534,163	\$ 145,327,857
Less: Earned Revenue	(10,699,555)	(8,530,030)
Net Program Costs	\$ 132,834,608	\$ 136,797,827
Air National Guard		
Gross Cost	\$ 19,972,988	\$ 17,565,825
Less: Earned Revenue	(311,636)	(283,342)
Net Program Costs	\$ 19,661,352	\$ 17,282,483
Air Combat Command		
Gross Cost	\$ 18,053,823	\$ 14,043,970
Less: Earned Revenue	(258,498)	(302,955)
Net Program Costs	\$ 17,795,325	\$ 13,741,015
Air Mobility Command		
Gross Cost	\$ 12,371,216	\$ 11,030,569
Less: Earned Revenue	(99,229)	(82,914)
Net Program Costs	\$ 12,271,987	\$ 10,947,655
Space Systems Command		
Gross Cost	\$ 12,059,088	\$ 19,634,793
Less: Earned Revenue	(920,465)	(869,928)
Net Program Costs	\$ 11,138,623	\$ 18,764,865
Air Force Reserve Command		
Gross Cost	\$ 10,513,944	\$ 8,328,031
Less: Earned Revenue	(106,762)	(79,912)
Net Program Costs	\$ 10,407,182	\$ 8,248,119
Air Education and Training Command		
Gross Cost	\$ 10,804,329	\$ 6,746,020
Less: Earned Revenue	(456,769)	(318,525)
Net Program Costs	\$ 10,347,560	\$ 6,427,495
Air Force District of Washington		
Gross Cost	\$ 10,987,660	\$ 10,605,888
Less: Earned Revenue	(1,162,356)	(898,211)
Net Program Costs	\$ 9,825,304	\$ 9,707,677
Other		
Gross Cost	\$ 28,429,947	\$ 20,392,913
Less: Earned Revenue	(370,541)	(647,907)
Net Program Costs	\$ 28,059,406	\$ 19,745,006
Total		
Gross Cost	\$ 266,727,158	\$ 253,675,866
Less: Earned Revenue	(14,385,811)	(12,013,724)
Net Cost of Operations	\$ 252,341,347	\$ 241,662,142

NOTE 19 *DISCLOSURES RELATED TO THE STATEMENT OF NET COST*

The Statement of Net Cost (SNC) represents the net cost of DAF GF programs and organizations 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 DAF GF displays the gross and net cost information using "major program." The DAF GF categorized applicable net costs to each program and allocated the remaining costs not directly traceable or assignable to a specific program using both a service-based and a percentage allocation method. The "Other" line incorporates combined gross costs and earned revenue amounts for remaining Major Commands, Field Commands, Field Operating Agencies, Direct Reporting Units, and applicable Combatant Commands.

The DAF GF'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 non-federal expenses. Intradepartmental revenues and expenses are then eliminated.

The DAF GF is not in compliance with Federal Generally Accepted Accounting Principles. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems adjusted to record known accruals for major items such as payroll expenses, Accounts Payable, and environmental liabilities.

The DAF GF is working toward disclosing transfers of Heritage Assets and Stewardship Land, in addition to exchange revenue.

Goods and services are received from other federal entities at no cost or at a cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the DAF GF are recognized as imputed costs in the SNC and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits and claims to be settled by the Treasury Judgment Fund; however, unreimbursed costs of goods and services other than these above are not included in the DAF GF's financial statements.

For additional information on exchange revenue pricing and loss information, refer to [Note 1.V., Summary of Significant Accounting Policies – Revenue and Other Financing Sources](#).

NOTE 20 DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

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 \$994.4 million. The SBR is presented on a combined basis in accordance with the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This presentation differs from the SCNP, which is presented on a consolidated basis.

AS OF SEPTEMBER 30, 2024 (UNAUDITED)		(AMOUNTS 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	\$	262,874,368	
Less: Appropriations Received, Statement of Changes in Net Position		261,879,959	
Total Reconciling Amount	\$	994,409	
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources			
Permanent and Temporary Reductions	\$	(694,734)	
Items Reported in Appropriations, Statement of Budgetary Resources			
Transfers		1,678,974	
Trust and Special Fund Receipts		10,169	
Total Reconciling Amount	\$	994,409	

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Transfers include the current year authority transfers in and current year authority transfers out.

Trust and Special Fund Receipts are not immediately available for obligation and are awaiting authorizing legislation and/or the satisfying of specific legal requirements are not immediately available for obligation.

AS OF SEPTEMBER 30, 2024 (UNAUDITED)		(AMOUNTS IN THOUSANDS)	
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			
CONSOLIDATING NET POSITION	COMBINED	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
Cumulative Results of Operations – Dedicated Collections	\$ 42,863	\$ 0	\$ 42,863
Cumulative Results of Operations – Other Funds	214,997,484	0	214,997,484
Unexpended Appropriations – Other Funds	181,335,641	0	181,335,641
Total Net Position	\$ 396,375,988	\$ 0	\$ 396,375,988

NOTE 20 *DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION*

RESTATED AS OF SEPTEMBER 30, 2023 (UNAUDITED)			(AMOUNTS IN THOUSANDS)
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			
CONSOLIDATING NET POSITION	COMBINED	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
Cumulative Results of Operations – Dedicated Collections	\$ 41,018	\$ 0	\$ 41,018
Cumulative Results of Operations – Other Funds	220,629,866	0	220,629,866
Unexpended Appropriations – Other Funds	166,733,181	0	166,733,181
Total Net Position	\$ 387,404,065	\$ 0	\$ 387,404,065

Funds from Dedicated Collections is presented on a combined basis in [Note 18, Funds from Dedicated Collections](#). The tables above summarize the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated net position totals as presented on the Balance Sheet.

OTHER DISCLOSURES**Cumulative Results of Operations – Other**

Cumulative Results of Operations – 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.

Prior Period Adjustment

In FY 2024, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Equipment – Aircraft and Modifications, General Equipment – Satellites, Operating Materials and Supplies, and General Equipment – Other, Construction-in-Progress – Real Property, and Contract Financing Payment. The DAF GF adjusted for these known errors through prior period adjustments.

For additional information related to these prior period adjustments, refer to [Note 27, Restatements](#).

NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments as of September 30, 2024 to the budgetary resources available at the beginning of the year.

TERMS OF BORROWING AUTHORITY USED

The DAF GF utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*. For additional information related to MHPI, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#), and [Note 25, Public-Private Partnerships](#).

AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing authority remaining for the FY ended September 30, 2024.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	RESTATED 2023 (UNAUDITED)
Intragovernmental		
Unpaid	\$ 8,317,093	\$ 12,040,811
Prepaid/Advanced	1,337,879	(727,958)
Total Intragovernmental	\$ 9,654,972	\$ 11,312,853
Other than Intragovernmental		
Unpaid	\$ 122,986,431	\$ 111,801,924
Prepaid/Advanced	5,515,563	11,055,022
Total Other than Intragovernmental	\$ 128,501,994	\$ 122,856,946
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 138,156,966	\$ 134,169,799

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the DAF GF's unobligated balances represent trust fund receipts collected as of September 30, 2024 exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the trust funds and are available for obligation in the future. The DAF GF operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances. For the amount of receipts collected as of September 30, 2024, refer to [Note 20, Disclosures Related to the Statement of Changes in Net Position](#).

NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from FY 2023 SBR and the actual amounts from the “Analytical Perspectives – Federal Budget by Agency and Account” and “Appendix – Detailed Budget Estimates by Agency” sections of the FY 2025 President’s Budget. The Budget with the actual amounts for the current year (FY 2024) will be available at a later date at [The President’s Budget | The White House](#).

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
AS OF SEPTEMBER 30 (AMOUNTS IN BILLIONS)	FY 2023 ACTUAL (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	\$ 312.4	\$ 272.4	\$ 0.1	\$ 226.4
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	\$ (5.1)	\$ 0	\$ 0	\$ 0
Budget of the U.S. Government	\$ 307.3	\$ 272.4	\$ 0.1	\$ 226.4

*The difference reported above for Budgetary Resources is due to different reporting requirements on the SBR versus the Budget.

CONTRIBUTED CAPITAL

There was no infusion of capital received for the FY ended September 30, 2024.

OTHER DISCLOSURES

Expired Unobligated Balance

The SBR reflects Unobligated Expired Appropriations in the amount of \$5.7 billion (1.7% of Total Budgetary Resources). The DAF GF strives to obligate as close as prudently possible to 100.0% of available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Anti-Deficiency Act*. The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by 31 U.S. Code (U.S.C.) § 1553.

Apportionment Categories

Funds are apportioned by three categories: 1) Category A is apportioned quarterly; 2) Category B is apportioned by program, 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.

NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

(AMOUNTS IN BILLIONS)			
TYPE		DIRECT	REIMBURSABLE
CATEGORY A	\$	143.7	\$ 5.6
CATEGORY B	\$	127.8	\$ 7.4
EXEMPT	\$	0	\$ 0
TOTAL	\$	271.5	\$ 13.0

Permanent Indefinite Appropriations

Permanent indefinite appropriations are as follows (for additional information on the DAF GF General Gift Fund, the Wildlife Conservation Fund, and the Air Force Cadet Fund, refer to [Note 18, Funds from Dedicated Collections](#)):

- » DAF GF General Gift Fund [10 U.S.C. § 2601]
- » Wildlife Conservation Fund [16 U.S.C. § 670a]
- » Air Force Cadet Fund [10 U.S.C. § 9459]
- » Medicare-Eligible Retiree Health Fund Contribution, Air Force [10 U.S.C. § 1116]
- » Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force [10 U.S.C. § 1116]
- » Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force [10 U.S.C. § 1116]

The Medicare-Eligible Retiree Health Fund Contribution is maintained for the accumulation of funds, in compliance with the law, in order to finance uniformed services retiree health care programs for Medicare-eligible beneficiaries. The Secretary of the Treasury will contribute an amount into the Fund from the General Fund of the Treasury, which is certified under the Secretary of Defense. Amounts paid will be for the costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating uniformed service who are entitled to retired or retainer pay and are Medicare-eligible, and eligible dependents who are Medicare-eligible. The fund receives income from the three following sources: 1) annual Treasury payment made on behalf of the Uniformed Services at the beginning of the year based on average budgeted force strengths; 2) annual payments from the Treasury to amortize the unfunded liability; and 3) investment income.

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. For additional information, refer to [Note 20, Disclosures Related to the Statement of Changes in Net Position](#).

NOTE 22 *DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS*

The DAF GF collected \$(218.8) million of incidental custodial revenues during the FY ended September 30, 2024, which were generated primarily from the collection of Accounts Receivable related to cancelled accounts. These funds are not available for use by the DAF GF. At the end of each FY, the accounts are closed and the balances are rendered to the Treasury.

NOTE 23 FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activities		
FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Fiduciary Net Assets, Beginning of Year	\$ (9,503)	\$ (7,830)
Contributions	29,749	19,785
Distributions To and On Behalf of Beneficiaries	(15,282)	(21,458)
Increase/(Decrease) in Fiduciary Net Assets	\$ 14,467	\$ (1,673)
Fiduciary Net Assets, End of Period	\$ 4,964	\$ (9,503)

Schedule of Fiduciary Net Assets		
AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Fiduciary Assets		
Fund Balance with Treasury	\$ 4,964	\$ (9,503)
Fiduciary Net Assets, End of Period	\$ 4,964	\$ (9,503)

A fiduciary relationship may exist any time the DAF GF collects or receives, and holds or makes, disposition of assets in which a non-federal individual or entity has an ownership interest that the DAF GF must uphold. The relationship is based on statute or other legal authority and the fiduciary activity must be in furtherance of that relationship.

The DAF GF's fiduciary activities consist solely of the Savings Deposit Program (SDP). SDP was authorized by 10 U.S. Code § 1035, which authorized the DAF GF to collect savings deposits on behalf of members of the uniformed services serving in a designated combat zone as an opportunity to build their financial savings. However, the balance presented for SDP does not currently reflect the fiduciary net assets balance held by the DAF GF due to limitations identifying interagency transactions, specifically with the Department of the Navy. Additional reconciliations need to be performed to accurately classify and present the fiduciary net assets for SDP held by the DAF GF.

The DAF GF is not aware of any non-valued fiduciary assets for which it has management responsibility.

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	\$ 42,218,643	\$ 210,122,704	\$ 252,341,347
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, plant, and equipment depreciation expense	\$ 0	\$ (16,405,565)	\$ (16,405,565)
Property, plant, and equipment disposals and revaluations	0	(1,971,260)	(1,971,260)
Cost of goods sold	0	0	0
Inventory disposals and revaluations	0	(573,758)	(573,758)
Applied overhead/cost capitalization offset			
Inventory and related property	\$ 0	\$ 0	\$ 0
Property, plant, and equipment	0	0	0
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	\$ (249,881)	\$ (293,530)	\$ (543,411)
Advances and Prepayments	0	(5,539,458)	(5,539,458)
Other Assets	(979,244)	0	(979,244)
(Increase)/Decrease in Liabilities:			
Accounts Payable	\$ (120,278)	\$ 1,061,029	\$ 940,751
Environmental and disposables liabilities	0	(1,402,970)	(1,402,970)
Federal employee salary, leave, and benefits payable	0	(2,397,670)	(2,397,670)
Veterans, pensions, and post employment-related benefits	0	8,821	8,821
Advances from Others and Deferred Revenue	552,850	(79,190)	473,660
Other Liabilities	(91,930)	2,367,416	2,275,486
Financing Sources:			
Imputed Cost	\$ (1,462,476)	\$ 0	\$ (1,462,476)
Total Components of Net Cost Not Part of Net Budgetary Outlays	\$ (2,350,959)	\$ (25,226,135)	\$ (27,577,094)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of capital assets	\$ 0	\$ 14,543,097	\$ 14,543,097
Acquisition of inventory	0	3,650,280	3,650,280
Financing Sources:			
Donated Revenue	\$ 0	\$ (3,111)	\$ (3,111)
Transfers out (in) without reimbursements	(67,087)	54,021	(13,066)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	\$ (67,087)	\$ 18,244,287	\$ 18,177,200

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
MISCELLANEOUS RECONCILING ITEMS			
Distributed offsetting receipts	\$ 17,880	\$ (221,993)	\$ (204,113)
Custodial/Non-exchange revenue	0	168,460	168,460
Other Temporary Timing Differences	0	0	0
Appropriated Receipts for Trust/Special Funds	0	10,171	10,171
Total Other Reconciling Items	\$ 17,880	\$ (43,362)	\$ (25,482)
Total Net Outlays	\$ 39,818,477	\$ 203,097,494	\$ 242,915,971
Budgetary Agency Outlays, Net			\$ 242,915,971
Unreconciled Difference			\$ 0

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2023 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	\$ 42,108,731	\$ 199,553,411	\$ 241,662,142
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, plant, and equipment depreciation expense	\$ 0	\$ (14,426,217)	\$ (14,426,217)
Property, plant, and equipment disposals and revaluations	0	(8,986,462)	(8,986,462)
Cost of goods sold	0	0	0
Inventory disposals and revaluations	0	(6,734,225)	(6,734,225)
Applied overhead/cost capitalization offset			
Inventory and related property	\$ 0	\$ 1,837,216	\$ 1,837,216
Property, plant, and equipment	0	0	0
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	\$ 52,375	\$ 228,009	\$ 280,384
Advances and Prepayments	0	(1,726,843)	(1,726,843)
Other Assets	(1,028,770)	0	(1,028,770)
(Increase)/Decrease in Liabilities:			
Accounts Payable	\$ 362,548	\$ (1,167,856)	\$ (805,308)
Environmental and disposables liabilities	0	(2,019,008)	(2,019,008)
Federal employee salary, leave, and benefits payable	0	(297,075)	(297,075)
Veterans, pensions, and post employment-related benefits	0	6,304	6,304
Advances from Others and Deferred Revenue	331,342	(87,327)	244,015
Other Liabilities	(79,639)	(5,917,192)	(5,996,831)
Financing Sources:			
Imputed Cost	\$ (1,259,576)	\$ 0	\$ (1,259,576)
Total Components of Net Cost Not Part of Net Budgetary Outlays	\$ (1,621,720)	\$ (39,290,676)	\$ (40,912,396)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of capital assets	\$ 0	\$ 20,011,164	\$ 20,011,164
Acquisition of inventory	0	4,306,358	4,306,358
Financing Sources:			
Donated Revenue	\$ 0	\$ (5,668)	\$ (5,668)
Transfers out (in) without reimbursements	769,060	0	769,060
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	\$ 769,060	\$ 24,311,854	\$ 25,080,914

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2023 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
MISCELLANEOUS RECONCILING ITEMS			
Distributed offsetting receipts	\$ 268,650	\$ (212,961)	\$ 55,689
Custodial/Non-exchange revenue	0	(260,499)	(260,499)
Other Temporary Timing Differences	0	729,751	729,751
Appropriated Receipts for Trust/Special Funds	0	6,734	6,734
Total Other Reconciling Items	\$ 268,650	\$ 263,025	\$ 531,675
Total Net Outlays	\$ 41,524,721	\$ 184,837,614	\$ 226,362,335
Budgetary Agency Outlays, Net			\$ 226,362,335
Unreconciled Difference			\$ 0

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the Government’s financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provide an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

The Statement of Federal Accounting Standards (SFFAS) 49, *Public-Private Partnerships: Disclosure Requirements*, was issued in recognition of the increasing number of risk-sharing agreements or transactions being entered into between Federal Government agencies and the private sector. These agreements are referred to as Public Private Partnerships (P3s). SFFAS 49 is effective for periods beginning after September 30, 2018. Therefore, FY 2019 was the first time that the DAF GF reported under this Standard. However, the DAF GF is not fully compliant with SFFAS 49 because it has not completed a comprehensive review and evaluation of all significant business agreements that could require disclosure under SFFAS 49.

The DAF GF is in the process of reviewing its business agreements and transactions to determine those that meet the disclosure requirements of SFFAS 49. To date, the DAF GF has identified the Military Housing Privatization Initiative (MHPI) as meeting the requirements for disclosure in its financial statements in accordance with SFFAS 49. Disclosure information for the MHPI, as well as consideration of other DAF GF agreements which may meet the criteria for SFFAS 49 disclosure, are described below.

In addition to developing appropriate disclosures to meet the requirements of SFFAS 49 for the MHPI, the DAF GF is also in the process of reviewing the details of the individual agreements within the MHPI to help ensure that the agreements and their underlying transactions are/have been recorded and reported in accordance with Federal Generally Accepted Accounting Principles (GAAP).

MILITARY HOUSING PRIVATIZATION INITIATIVE

MHPI authority stems from the *National Defense Authorization Act* (NDAA) for FY 1996, Public Law 104-106 (110 Stat 186, Section 2801), as amended. Title 10 U.S. Code (U.S.C.) § 2871-2894a codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. MHPI allows the DAF GF to work with the private sector entities (Private Partners) to build, renovate, and sustain military housing by obtaining private capital to leverage government dollars. By engaging in P3 MHPI agreements, the DAF GF benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow.

Funding

Federal funding for the MHPI agreements was provided through the DAF GF budgetary resources and/or the Treasury through Government Direct Loan (GDL) disbursements at development completion or completed phases of development; limited loan guarantees of private debt against base closure, significant deployment, or significant downsizing; direct upfront cash and non-cash equity contribution; contribution of Real Property assets, and/or through differential lease payments for a stated period of time.

At inception of an MHPI agreement, the DAF GF enters into a long-term land lease (generally 50 years), and conveys the associated Real Property assets (e.g., buildings, structures, facilities, and, in some cases, utility infrastructure) to the MHPI P3 organized as a single purpose, bankruptcy remote Limited Liability Company (LLC). The DAF MHPI program provides local family housing at 63 installations (31 projects). All of the DAF's MHPI agreements were initiated between 1998 - 2013.

The authorities under the DoD MHPI program allow for direct cash contributions, loans, or limited loan guarantees of private debt to the LLCs. Contributions to MHPI P3 partners from the DoD Family Housing Improvement Fund (FHIF) requires a statement of scored cost including the conveyance or lease as determined by the Office of Management and Budget (OMB) approval and Congressional notification [10 U.S.C. § 2884]. There are no contractual requirements for additional federal contributions to the LLCs.

As a result of Public Law 115-91 § 603, Public Law 115-232 § 606, as amended by § 3036(a) and 3037 of the FY 2020 NDAA (Public Law 116-92), the DAF GF is required to make direct payments to the MHPI entities equivalent to either 1.0%, 5.0%, or 2.5% of the Basic Allowance for Housing (BAH) amount as applicable calculated under 37

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

U.S.C. § 403(b)(3)(A)(i) of the military pay statute for the area in which the covered housing exists.

The DoD identified MHPI agreements as P3s requiring disclosure. P3s are risk-sharing agreements with expected lives greater than five years between public and private sector entities. The DAF GF's disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. SFFAS 49 requires disclosing the nature of the DAF GF's relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*.

Investment Recognition

In FY 2021, the DoD issued guidance and instructions prescribing evaluation criteria and financial treatment to account for and report investments and contributions to the MHPI projects. The revised guidance provides detailed instruction on recording initial cash and non-cash asset contributions and recording yearly gains and losses as well as at the dissolution of the agreements. The policy includes GAAP-compliant methodology to report profits and losses on the initial and on-going contributions to the investments. The DAF GF must disclose its relationships with the P3 private entities, and the DoD will recognize any gains or losses associated with the contributions to the private entity in the DoD consolidated financial statements. Per the Lease of Property (LOP) for each base, there are three options at lease termination to include restoration and surrender, with or without demolition of improvements or renewal of the lease.

The following table represents the aggregated contribution amounts paid to the MHPI Program, LLCs, and Limited Partnerships (LPs) Private Partners as of September 30, 2024 and September 30, 2023:

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

DAF GF INITIAL CONTRIBUTIONS FROM THE MHPI PROGRAMS*	2024		2023		EXPECTED LIFE	
	ACTUAL AMOUNT RECEIVED	ACTUAL AMOUNT PAID	ACTUAL AMOUNT RECEIVED	ACTUAL AMOUNT PAID	ESTIMATED AMOUNT TO BE RECEIVED OVER EXPECTED LIFE ***	ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE ***
Direct cash contributions (see Note 5, Investments, Net)	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 674.9 million
Real property contributions to the MHPI Project LLCs and LPs (value of Real Property Assets conveyed, per OMB scoring documents) (see Note 5, Investments, Net)	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 2.7 billion
Bonds Purchased	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
Direct loans disbursed	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 30.1 million	\$ 0.0 million	\$ 1.9 billion
DOD ON-GOING CONTRIBUTIONS TO THE DAF GF MHPI PARTNERSHIPS*						
DoD direct payments**	\$ 0.0 million	\$ 67.2 million	\$ 0.0 million	\$ 62.1 million	Not Estimable	Not Estimable
Indirect third-party payment of BAH under § 403 of Title 37 from members living in privatized housing**	\$ 0.0 million	\$ 1.1 billion	\$ 0.0 million	\$ 978.3 million	Not Estimable	Not Estimable
Differential lease payments	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 16.5 million
Property, cash, bonds, and direct loans	\$ 0.0 million	\$ 1.9 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 57.9 million
PRIVATE PARTNER INITIAL CONTRIBUTIONS TO THE MHPI PARTNERSHIPS						
Direct cash contributions	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 338.8 million	\$ 0.0 million
Real property and land contributions to the LLCs & LPs	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 1.2 million	\$ 0.0 million
Bonds issued and construction loans obtained	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 5.1 billion	\$ 0.0 million
PRIVATE PARTNER ON-GOING CONTRIBUTIONS TO THE MHPI PARTNERSHIPS						
Direct cash contributions	\$ 0.0 million	\$ 0.0 million	\$ 58.0 million	\$ 0.0 million	\$ 58.0 million	\$ 0.0 million
Return of contributions to Partner	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
Real property and land contributions	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
Bonds issued and construction loans obtained	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
Bonds and direct loans payment	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million

* Note: The DAF GF cash and Real Property contributions in the table above are currently reported in the DoD's consolidated financial statements. For additional information on the DoD's investments and securities, refer to Note 5, Investments, of the DoD's consolidated financial statements.

** If the Military Member uses MHPI, the associated BAH amount is considered to be an indirect third-party payment from the DAF GF.

*** The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined. As provided in SFFAS 49, paragraph 24.b, the DAF GF does not estimate the future amount of BAH to be paid to MHPI entities. This is due to

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual NDAA's and are implemented through annual appropriations to the DAF GF. Further, it is a Service Member's discretionary choice to live in MHPI housing.

Service Members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the DAF GF to any MHPI entity to ensure a minimum number of military residents in MHPI housing.

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other civilians. OETs do not provide or receive money from the project or the Government. MHPI entity's audited financial statements do not differentiate rental income by tenant military status and there is no requirement for the entity to do so. Therefore, the funding received from non-military tenants is also not estimable.

Non-federal funding for the MHPI agreements generally included cash equity contribution(s) investment(s) on the part of the Private Partners and either bond or loan revenue obtained by the LLC for the purpose of financing the demolition/renovation/new construction of Real Property assets required to meet the end state number of housing units. The DAF GF obtained OSD and OMB approval of the end state through the scoring reports and notifications provided to Congress for the MHPI P3 agreements.

There is no requirement for the Private Partners to make any additional contributions through the end of the agreements (approx. through 2063).

The MHPI entities have not borrowed or invested capital based on any DAF GF promise to pay, either implied or explicit. The only payments contractually required from the DAF GF to the MHPI entities are the direct cash investments and direct loan disbursements required upon execution of each phase of the MHPI agreement in accordance with the Operating Agreement (OA) or forward commitment, if required. There are no other contractually required payments from the DAF GF to the MHPI entities for the remaining term of the agreements.

The DAF GF and Partner equity investments may occur at the beginning of any new equity project, as required by the LLC OA. Any new DAF GF cash investment in a MHPI P3 from the FHIF or Military Unaccompanied Housing Improvement Fund requires approval from the Office of the Assistant Secretary of Defense (OASD) Energy, Installations, and Environment (EI&E) and the OMB as well as congressional notification [10 U.S.C. § 2883(f)]. The DAF GF is not obligated by the OAs for equity projects to make any investments in the MHPI P3 beyond its initial investment in each project. The DAF GF has not made any in-kind contributions/services or donations to the MHPI entities.

The DAF GF may contribute budget authority to restructure a project in financial distress through a modification of the GDL under OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, Part 5, Section 185, *Federal Credit*, or by providing a government equity contribution under 10 U.S.C. § 2875. Unless the DAF GF is already part of the LLC entity that owns the project, the DAF GF would likely become a non-managing member of the LLC.

Contractual Terms Governing Incentive Fees

Performance Incentive Fees (PIFs) are paid as an incentive to the MHPI property manager for achieving a specific level of performance. The amount of the fee award depends on performance relative to criteria/ targets specified in the Performance Incentive Plan (PIP). The DAF GF housing privatization transactions generally include management fees with two pricing components: a base fee and an incentive fee. The base fee is guaranteed, but the PIF is awarded only to the extent that the property manager meets the PIP criteria. Not all projects have a PIF written into their transaction documents.

Risk

The DoD's risk of loss is the initial cash contribution to the program, the risk of default on a GDL and the risk of a Guaranty Threshold Event under a Loan Guaranty Agreement will occur. In addition, the DAF GF risks failing to deliver on its goal to provide quality housing services to Service members. The Private Partner's risk of loss includes

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI lockbox agreement prescribes how funds flow through accounts (“waterfall”) and can vary from project to project. This hierarchy ensures payments to “must pay” accounts, such as operating expenses and debt, occur first with certain Project Owners’ fees at risk of delay or non-payment if insufficient cash flow is available. The waterfall is in effect a risk mitigation strategy to the LLC, should unexpected interruptions occur to the revenue stream during project operation.

The MHPI OAs and lockbox agreements do not explicitly identify risk of loss contingencies, but some projects include reserve accounts for specific circumstances, such as operating expense reserve accounts or utility reserve accounts to save funds for protection against unexpectedly high expenses.

The four DAF GF equity deal OAs provide for orderly processes for dissolution or termination of the agreement. The OAs also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement.

Succession or removal of a Project Owner under a debt deal structure is addressed through the project LOP or, in the case of grouped projects, through the Master Development and Management Agreement (MDMA).

The DAF GF projects with a direct loan may involve a restructure of the loan through an administrative workout under OMB Circular A-11, Part 5, Section 185, *Federal Credit*, for a troubled loan or a loan in imminent default. The cost of this type of restructure is borne by the Treasury through permanent indefinite authority. The DAF GF may also contribute budget authority to modify a direct loan to strengthen long term financial sustainment of the project under a direct loan modification. The DAF GF obtains OASD EI&E and OMB approval of a direct loan modification for a project in order to strengthen its long-term sustainment.

The following are 10 U.S.C. § 2873 projects with sustainment challenges.*

PROJECT	DESCRIPTION
Project 1	Sustainment and mid-term reinvestment shortfalls
Project 2	
Project 3	
Project 4	
Project 5	
Project 6	
Project 7	
Project 8	
Project 9	
Project 10	
Project 11	
Project 12	

* Refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities* for additional details.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

The entity cash flow is dependent on congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI entity. The DAF GF can influence but cannot control the authorization and appropriation process. Additionally, as a result of ongoing congressional review of the MHPI program and the FY 2020 NDAA and subsequent NDAA's, there may be changes to the relationship between the DAF GF and the entity based on congressional action.

Changes, once fully implemented from the FY 2020 NDAA (Public Law 116-92 § 606), Section 2811 of FY 2021 NDAA (Public Law 116-283), and Section 2811 of FY 2022 NDAA (Public Law 117-81) will potentially impact the revenue stream of projects. The full impact is not measurable at this time.

If or when additional action is taken, the DAF GF will disclose any financial changes or impacts that this may pose or cause. There is potentially a remote impact, which is not measurable at this time.

Risk of Termination of Non-Compliance

The DAF GF receives and tracks monthly financial reports and monitors for events of termination or default including failure to make required capital investments, judicial dissolution, insolvency, or other significant breach or agreements without resolution.

The conditions governing the early termination, hand-back, and renewal options vary from each MHPI agreement. If a going-concern, termination, or default occurs, the DAF GF will conduct procedures to mitigate risk and to identify an entity to take over the partnership. Each MHPI OA for equity deals and LOP or MDMA provides for orderly processes for dissolution or termination of the agreement to include the sale of assets not on the DAF GF land and the reversion of Real Property assets to the DAF GF. The OAs, LOP or MDMA, as applicable, also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement, thereby avoiding early termination of the project.

Other Potential Public-Private Partnership Arrangements

The DAF GF is still in the process of implementing this significant standard and completing a full impact analysis. Once the DAF GF fully implements this new standard, the DAF GF will be able to provide a thorough disclosure.

For additional information, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#), and [Note 12, Debt](#).

NOTE 26 *DISCLOSURE ENTITIES AND RELATED PARTIES*

Effective in FY 2018, Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, requires agencies to disclose certain information for disclosure entities and related parties. Related Party Organizations are considered related parties if: 1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions; and 2) the organizations do not meet the inclusion principles of SFFAS 47. The DAF GF is still in the early stages of implementing this significant standard and completing a full impact analysis. Once the DAF GF fully implements this new standard, the DAF GF will be able to provide a thorough disclosure for Disclosure Entities and Related Parties.

The DAF GF has Public-Private Partnership (P3) agreements that meet the criteria for disclosure as related parties. For disclosures related to P3 contributions, risks, and operations, refer to [Note 25, Public-Private Partnerships](#).

NOTE 27 *RESTATEMENTS*

PRIOR PERIOD ADJUSTMENT

In FY 2024, by performing routine internal control activities, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Equipment – Aircraft and Modifications, General Equipment – Satellites, Operating Materials and Supplies, and General Equipment – Other requiring the following prior period adjustment:

1. For General Equipment – Aircraft and Modifications:
 - » Reversal of permanent journal vouchers that should have been reversed in prior periods.
 - » Updated modification useful life policy was implemented in the current year to account for extensions to base aircraft and modification service life.
 - » Capitalized expenses in Construction-in-Progress (CIP) should have been capitalized in prior fiscal periods.
 - » Untimely updates in Accountable Property System of Record (APSR) led to transactions reporting in the incorrect period. These corrections and adjustments caused activity that should have been recorded in a previous fiscal year to be recorded in the current fiscal year.
2. For General Equipment – Satellites:
 - » Capitalized expenses in CIP should have been capitalized in prior fiscal periods.
 - » Untimely updates in APSR led to transactions reporting in the incorrect period. These corrections and adjustments caused activity that should have been recorded in a previous fiscal year to be recorded in the current fiscal year.
3. For Operating Materials and Supplies (OM&S):
 - » Updated policy directs components to reclassify assets as OM&S if currently classified as General Equipment and to document the necessary prior period adjustments.
4. For General Equipment – Other: Reversal of historic General Equipment Air Force Equipment Management System legacy balances and U.S. Special Operations Command activity.
5. For Construction-in-Progress – Real Property: The DAF GF recorded prior year CIP balance as reported by Naval Facilities Engineering Systems Command in FY 2024.
6. For Contract Financing Payment - The DAF GF expensed contract financing payment per DoD policy “Accounting and Reporting Contract Finance Payments” instead of recording as Advances and Prepayments.

NOTE 27 *RESTATEMENTS*

As a result of the prior period adjustments, the DAF GF restated the FY 2023 balances (which is the earliest period presented in the FY 2024 DAF GF financial statements). These prior period adjustments impacted the following financial statement line items for FY 2023:

DAF GF Restatement Impact to the Balance Sheet

AS OF SEPTEMBER 30, 2023 <i>(AMOUNTS IN THOUSANDS)</i>	UNADJUSTED	ADJUSTED	RESTATED
Operating Materials and Supplies, Net	\$ 64,701,005	\$ 6,830,468	\$ 71,531,473
General Property, Plant, and Equipment	\$ 155,655,864	\$ 14,057,719	\$ 169,713,583
Advances and Prepayments	\$ 11,055,022	\$ (1,833,985)	\$ 9,221,037
Total Other than Intragovernmental	\$ 232,063,432	\$ 19,054,202	\$ 251,117,634
Total Assets	\$ 417,385,989	\$ 19,054,202	\$ 436,440,191
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 168,517,231	\$ (1,784,050)	\$ 166,733,181
Total Unexpended Appropriations (Consolidated)	\$ 168,517,231	\$ (1,784,050)	\$ 166,733,181
Cumulative Results of Operations - Funds Other than Dedicated Collections	\$ 199,791,614	\$ 20,838,252	\$ 220,629,866
Total Cumulative Results of Operations (Consolidated)	\$ 199,832,632	\$ 20,838,252	\$ 220,670,884
Total Net Position	\$ 368,349,863	\$ 19,054,202	\$ 387,404,065
Total Liabilities and Net Position	\$ 417,385,989	\$ 19,054,202	\$ 436,440,191

DAF GF Restatement Impact to the Statement of Net Cost

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 <i>(AMOUNTS IN THOUSANDS)</i>	UNADJUSTED	ADJUSTED	RESTATED
Program Costs: Operations, Readiness & Support	\$ 76,817,366	\$ (33,667)	\$ 76,783,699
Program Costs: Procurement	\$ 63,805,068	\$ 1,187,955	\$ 64,993,023
Program Costs: Research, Development, Test & Evaluation	\$ 60,333,670	\$ (43,597)	\$ 60,290,073
Program Costs: Family Housing & Military Construction	\$ 5,133,717	\$ (354,770)	\$ 4,778,947
Gross Costs	\$ 252,919,945	\$ 755,921	\$ 253,675,866
Net Costs of Operations	\$ 240,906,221	\$ 755,921	\$ 241,662,142

NOTE 27 *RESTATEMENTS*

DAF GF Restatement Impact to the Statement of Changes in Net Position

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 <i>(AMOUNTS IN THOUSANDS)</i>	UNADJUSTED	ADJUSTED	RESTATED
Corrections of errors (+/-)	\$ 0	\$ (183,532)	\$ (183,532)
Beginning Balances, as adjusted	\$ 155,581,068	\$ (183,532)	\$ 155,397,536
Appropriations used	\$ (234,303,987)	\$ (1,600,518)	\$ (235,904,505)
Net Change in Unexpended Appropriations (Includes Funds From Dedicated Collections)	\$ 12,936,163	\$ (1,600,518)	\$ 11,335,645
Total Unexpended Appropriations, Ending Balance (Includes Funds From Dedicated Collections)	\$ 168,517,231	\$ (1,784,050)	\$ 166,733,181
Corrections of errors (+/-)	\$ 0	\$ 21,100,876	\$ 21,100,876
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections)	\$ 204,599,852	\$ 21,100,876	\$ 225,700,728
Appropriations used	\$ 234,303,987	\$ 1,600,518	\$ 235,904,505
Transfers in/out without reimbursement	\$ 338,161	\$ (1,107,221)	\$ (769,060)
Total Budgetary Financing Sources	\$ 236,139,001	\$ 493,297	\$ 236,632,298
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections)	\$ 240,906,221	\$ 755,921	\$ 241,662,142
Net Change in Cumulative Results of Operations	\$ (4,767,220)	\$ (262,624)	\$ (5,029,844)
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections)	\$ 199,832,632	\$ 20,838,252	\$ 220,670,884
Net Position	\$ 368,349,863	\$ 19,054,202	\$ 387,404,065

NOTE 28 *SUBSEQUENT EVENTS*

Subsequent events were evaluated from the Balance Sheet date through November 8, 2024, which is the date the financial statements were available to be issued. The DAF GF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2024 AND 2023 <i>(AMOUNTS IN THOUSANDS) (UNAUDITED)</i>	RESEARCH, DEVELOPMENT, TEST & EVALUATION	PROCUREMENT	MILITARY PERSONNEL
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 21)</i>	\$ 11,480,972	\$ 22,680,576	\$ 1,340,699
Appropriations (Discretionary and Mandatory)	66,017,206	65,582,468	47,458,861
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	6,935,131	1,324,150	606,084
Total Budgetary Resources	\$ 84,433,309	\$ 89,587,194	\$ 49,405,644
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	\$ 71,289,599	\$ 60,785,599	\$ 48,955,150
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	\$ 12,615,194	\$ 27,304,257	\$ 50,912
Exempt from Apportionment, Unexpired Accounts	0	0	0
Unapportioned, Unexpired Accounts	3,612	129	0
Unexpired Unobligated Balance, End of Year	\$ 12,618,806	\$ 27,304,386	\$ 50,912
Expired Unobligated Balance, End of Year	524,904	1,497,209	399,582
Unobligated Balance, End of Year (Total)	\$ 13,143,710	\$ 28,801,595	\$ 450,494
Total Budgetary Resources	\$ 84,433,309	\$ 89,587,194	\$ 49,405,644
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 61,931,639	\$ 55,031,643	\$ 45,255,861
Distributed Offsetting Receipts (-)	0	0	0
Agency Outlays, Net (Discretionary and Mandatory)	\$ 61,931,639	\$ 55,031,643	\$ 45,255,861

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2024 AND 2023 (AMOUNTS IN THOUSANDS) (UNAUDITED)	FAMILY HOUSING & MILITARY CONSTRUCTION	OPERATIONS, READINESS, & SUPPORT	2024 COMBINED	2023 COMBINED
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 21)</i>	\$ 5,468,499	\$ 19,511,460	\$ 60,482,206	\$ 52,079,833
Appropriations (Discretionary and Mandatory)	4,088,619	79,727,214	262,874,368	249,752,708
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	184	4,440,393	13,305,942	10,556,327
Total Budgetary Resources	\$ 9,557,302	\$ 103,679,067	\$ 336,662,516	\$ 312,388,868
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	\$ 2,723,415	\$ 100,711,983	\$ 284,465,746	\$ 272,350,492
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	\$ 6,051,991	\$ 416,876	\$ 46,439,230	\$ 34,871,160
Exempt from Apportionment, Unexpired Accounts	0	14,287	14,287	13,277
Unapportioned, Unexpired Accounts	2	2,605	6,348	6,859
Unexpired Unobligated Balance, End of Year	\$ 6,051,993	\$ 433,768	\$ 46,459,865	\$ 34,891,296
Expired Unobligated Balance, End of Year	781,894	2,533,316	5,736,905	5,147,080
Unobligated Balance, End of Year (Total)	\$ 6,833,887	\$ 2,967,084	\$ 52,196,770	\$ 40,038,376
Total Budgetary Resources	\$ 9,557,302	\$ 103,679,067	\$ 336,662,516	\$ 312,388,868
OUTLAYS, NET				
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 3,733,071	\$ 77,167,870	\$ 243,120,084	\$ 226,306,646
Distributed Offsetting Receipts (+/-)	0	(204,113)	(204,113)	55,689
Agency Outlays, Net (Discretionary and Mandatory)	\$ 3,733,071	\$ 76,963,757	\$ 242,915,971	\$ 226,362,335

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR (IN MILLIONS OF DOLLARS)	2024 (UNAUDITED)*		
	PLANT REPLACEMENT VALUE	REQUIRED WORK (DEFERRED MAINTENANCE & REPAIR)	PERCENTAGE (REQUIRED WORK/PLANT REPLACEMENT VALUE)
ACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	\$ 637,055	\$ 40,773	6.4%
Category Buildings, Structures, and Linear Structures (Enduring Facilities) - Including Military Housing	\$ 11,278	\$ 3,083	27.3%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	\$ 61,594	\$ 3,029	4.9%
Category Buildings, Structures, and Linear Structures (Heritage Assets) - Including Military Housing	\$ 277	\$ 144	51.8%
INACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	\$ 27,839	\$ 2,464	8.9%
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement) - Including Military Housing	\$ 71	\$ 12	16.9%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR (IN MILLIONS OF DOLLARS)	2023 (UNAUDITED)*		
	PLANT REPLACEMENT VALUE	REQUIRED WORK (DEFERRED MAINTENANCE & REPAIR)	PERCENTAGE (REQUIRED WORK/PLANT REPLACEMENT VALUE)
ACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	\$ 541,556	\$ 37,468	6.9%
Category Buildings, Structures, and Linear Structures (Enduring Facilities) - Including Military Housing	\$ 10,465	\$ 3,721	35.6%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	\$ 57,503	\$ 3,100	5.4%
Category Buildings, Structures, and Linear Structures (Heritage Assets) - Including Military Housing	\$ 267	\$ 173	64.8%
INACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	\$ 26,332	\$ 2,315	8.8%
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement) - Including Military Housing	\$ 69	\$ 10	14.5%

* FY 2023 Data is as of September 2023 using FY23 Unified Facilities Criteria (UFC) Pricing Guide information, while FY 2022 Data is as of August 2022; using FY21 UFC Pricing Guide Information.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

GENERAL OVERVIEW/POLICY

The DAF Real Property Deferred Maintenance and Repair (DM&R), consistent with Statement of Federal Financial Accounting Standards 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29 and 32*, is defined as facility maintenance and repairs that were not performed when they should have been or were scheduled to be performed and were delayed or rescheduled to a future period.

The DAF GF policy is to accomplish essential facility maintenance and repair to keep Real Property assets in a functional and safe condition so they can be used for their designated purpose. Maintenance and repairs include preventive maintenance; corrective maintenance; replacement of Real Property parts, systems, or components; and other activities needed to preserve or maintain the asset to a safe and working condition. These requirements are assessed on an annual basis for probability of asset failure and potential consequential risk to mission.

MAINTENANCE AND REPAIR POLICIES AND PROCEDURES

Department of the Air Force Instruction (DAFI) 32-1020, *Planning and Programming Built Infrastructure Projects*, provides policy guidance for the planning and programming of Real Property maintenance, repair, and construction projects for Facility Sustainment, Restoration, and Modernization funding. DAFI 32-1001, *Civil Engineer Operations*, provides further details about maintenance and inspection processes and responsibilities.

The DAF prioritizes, executes, and tracks maintenance and repair work in accordance with DAFI 32-1001 and DAFI 32-1020. The general work priorities and types in DAFI 32-1001 are used by the Base Civil Engineer to manage the maintenance and repair task workload and are summarized below:

WORK PRIORITIES	
WORK PRIORITY	WORK TYPE
1	Emergency Work
2A	Preventative Maintenance and Physical Plant Operations
2B	Contingency Projects
3A (High)	Scheduled Sustainment Work (Corrective Maintenance)
3B (Medium)	Scheduled Sustainment Work (Corrective Maintenance)
3C (Low)	Scheduled Sustainment Work (Corrective Maintenance)
4A	Scheduled Enhancement Work
4B	All Other Enhancement Work

DAF organizations at all levels are responsible for employing a sustainable, resilient, asset management approach for maintenance and repairs. The Air Force Civil Engineer Center assists installations for the identification and justification of facility maintenance and repair projects.

The DAF GF considers multiple interconnected factors as it determines acceptable Real Property asset condition standards. Depending on the asset assessed, factors include:

- » The designed intent of the infrastructure asset;
- » The infrastructure asset’s criticality to the DAF GF mission;
- » The asset management activity portfolio into which a given infrastructure asset falls: Facilities, Utilities, Transportation Network, or Natural Infrastructure, etc;

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

- » Technical Subject Matter Experts (SMEs) determine standardized engineering characteristics, single or multi-disciplinary, that are then assessed to determine and report the condition of given assets. Local and staff-level SMEs apply engineering judgment to these factors and derive recommended maintenance and repair tasks and projects necessary for a given asset to gain and/or maintain the condition required to support the DAF GF mission.

REPORTING PROCESS

The DAF GF reported DM&R includes both capitalized and non-capitalized Real Property, as well as General and Stewardship Assets.

When the DM&R report is required, Real Property inventory data is pulled from the Accountable Property System of Record (APSR), Next Generation Information Technology. This real property data is combined with data from Sustainment Management Systems (SMS) (e.g., BUILDER and PAVER) and subsequent analysis is performed using this aggregated data, or other Life Cycle Forecast data as applicable, along with input from functional SMEs to obtain a DM&R value for each reportable asset.

Not all assets recorded in the APSR are used in the DM&R calculations; therefore, they are not reported as part of the DM&R. The DAF GF uses Financial Reporting Organization and Interest Type coding in the APSR to determine the population of facilities for which it calculates a DM&R value. These criteria are used instead of Sustainment Organization and Sustainment Fund codes due to known APSRs data shortcomings in sustainment coding. As APSR data is updated to accurately reflect new host installation reporting guidance and to more accurately identify and code sustaining organizations, this process will be refined to provide increased precision in the DAF GF DM&R reporting.

DEFERRED MAINTENANCE AND REPAIR AMOUNTS FOR FY 2024

Historically, the DAF GF's reported DM&R amount has generally increased year-to-year due to under funding and delays in maintenance execution. This year, the overall DM&R value increased by \$2.7 billion, or 5.8%, from \$46.8 billion in FY 2023 to \$49.5 billion in FY 2024. This is a result of a combination of different factors:

- » The number of DM&R-reportable assets increased by 5.1%, from 144,923 in FY 2023 to 152,247 in FY 2024.
- » The number of DM&R assets using condition assessment-based data increased by 36.4%, from 72,658 in FY 2023 to 99,101 in FY 2024. This accounts for 65.1% of the DM&R assets and 77.8% of the total DM&R value.
 - » ~23,000 utility assets that used alternate calculation methods in prior years moved to condition assessment-based data due to correction of input data. This led to a lower amount of DM&R for these specific assets.
- » The increase in DM&R values associated with specific assets such as Roads and Parking Lots is due to existence and completeness efforts resulting in additional assets and/or additional unit of measure quantities, combined with additional condition assessment-based data.
- » The prior reporting period included several actions that resulted in higher DM&R which were not repeated this year. Examples include:
 - » The addition of Guard and Reserve SMS data in FY 2023.
 - » Increases in SMS BUILDER cost factors in FY 2023 as well as Plant Replacement Value (PRV) Unit Cost (PUC) and Sustainment Unit Cost.
 - » Data and DM&R values for some Family Housing assets in FY 2023 were corrected after additional investigation.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

This year, the overall PRV value associated with the reportable DM&R assets increased by \$101.9 billion or 16.0%, from \$636.2 billion in FY 2023 to \$738.1 billion in FY 2024. The increased PRV values can be primarily attributed to a change in PUC values issued by OSD, which increased on average by 15.0%.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR FOR FY ENDED SEPTEMBER 30, 2024 (IN MILLIONS OF DOLLARS) (UNAUDITED)				
MAJOR CATEGORIES	PRIOR YEAR DEFERRED MAINTENANCE AND REPAIR	PB-61 AMOUNTS	ADJUSTMENTS	TOTAL
Aircraft	\$ 144.4	\$ 14,735.1	\$ (14,403.4)	\$ 331.7
Automotive Equipment	\$ 0.0	\$ 0.3	\$ (0.3)	\$ 0.0
Combat Vehicles	\$ 0.0	\$ 6.2	\$ (6.2)	\$ 0.0
Construction Equipment	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Electronics and Communications Systems	\$ 5.0	\$ 1,803.7	\$ (1,799.0)	\$ 4.7
Missiles	\$ 0.0	\$ 797.1	\$ (797.0)	\$ 0.1
Ships	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Ordnance Weapons and Munitions	\$ 0.0	\$ 105.4	\$ (105.4)	\$ 0.0
General Purpose Equipment	\$ 0.0	\$ 190.4	\$ (190.4)	\$ 0.0
All Other Items Not Identified to Above Categories	\$ 0.0	\$ 22.2	\$ (22.2)	\$ 0.0
Total	\$ 149.4	\$ 17,660.4	\$ (17,323.9)	\$ 336.5

DEFERRED MAINTENANCE AND REPAIRS FOR YEAR END FISCAL YEAR (FY) 2024

Weapon System Sustainment (WSS) is very diverse and encompasses 104 weapon systems throughout the world and supports 11 Mission Panels. 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 are sustained to perform their assigned mission by the most economical means. Most requirements within WSS are considered Capitalized General Property, Plant, and Equipment.

DEFINING AND IMPLEMENTING MAINTENANCE AND REPAIR 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 a Requirement Change Request 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.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

RANKING AND PRIORITIZING MAINTENANCE AND REPAIR 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 projected deferred requirements of \$336.5M is due to deferrals in Active Duty, Air Force Reserve Command, and/or Air National Guard, of which the most significant are:

- » **C-130H Hercules** - \$50.2M deferred to aircraft induction schedule changes and aircraft availability.
- » **E-3 Airborne Warning and Control System** - \$30.9M deferred due to parts supportability issues.
- » **F-16 Fighting Falcon** - \$45.7M deferred due to depot capacity constraints and aircraft availability concerns.
- » **F-22 Raptor** - \$24.9M deferred to due aircraft availability concerns and reduced inductions.
- » **KC-135 Stratotanker** - \$136.7M deferred due to parts supportability constraints.

LAND

The DAF GF maintains General Property, Plant, and Equipment (PP&E) Land and Stewardship Land. Beginning in FY 2022, Statement of Federal Financial Accounting Standard (SFFAS) 59, *Accounting and Reporting of Government Land*, requires the disclosure of General PP&E Land and Stewardship Land as Required Supplementary Information (RSI). The DAF GF has ongoing efforts to validate the data available within the related Accountable Property Systems of Record which currently limits the DAF GF’s reporting capabilities. The DAF GF will continue to improve its process of reporting General PP&E Land and Stewardship Land in accordance with the disclosure requirements outlined by SFFAS 59 in future years.

General PP&E Land is land and land rights (such as easements) acquired or in combination with General PP&E, and land acquired with the intent to construct General PP&E. Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in combination with, items of General PP&E. All DAF GF Stewardship Land is in acceptable condition, based on designated use. The DAF GF is unable to identify quantities of Stewardship Land obtained through donation or devise due to the DAF GF’s financial and non-financial management processes and systems.

Pursuant to SFFAS 59, paragraphs 4 and 5, temporary land rights are excluded from RSI – Land. Based on information available from the Federal Real Property Council, *2024 Guidance for Real Property Inventory Reporting*, the DAF GF classified its reported General PP&E Land and Stewardship Land by predominant use category for FY 2023 and FY 2024, as summarized in the table below.

ESTIMATED ACREAGE BY PREDOMINANT USE <i>(ACREAGE IN THOUSANDS) (UNAUDITED)</i>				
	COMMERCIAL	CONSERVATION AND PRESERVATION	OPERATIONAL	TOTAL ESTIMATED ACREAGE
As of October 1, 2023	0	506	7,676	8,182
As of September 30, 2023	0	437	7,767	8,204
As of September 30, 2024	0	464	7,722	8,186
HELD FOR DISPOSAL OR EXCHANGE				
As of September 30, 2023	0	0	0	0
As of September 30, 2024	0	0	0	0



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

November 8, 2024

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the
Air Force General Fund Financial Statements and Related Notes for FY 2024
and FY 2023
(Project No. D2024-D000FT-0044.000, Report No. DODIG-2025-032)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2024, and 2023. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF General Fund FY 2024 and FY 2023 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements

Performed in Accordance with *Government Auditing Standards*,” discusses eight material weaknesses related to the DAF General Fund’s internal controls over financial reporting.* Specifically, EY’s report stated that the DAF General Fund did not:

- establish entity level controls that provided a basis for effective financial reporting;
- integrate and reconcile feeder systems to the general ledger to ensure that it accurately recorded the entire population of financial transactions on its financial statements in a timely manner;
- ensure the effective design and operation of financial information systems;
- develop sufficient policies, procedures, and internal controls over Accounts Payable, expenses, and contract financing payments;
- develop policies, procedures, and internal controls to identify, value, and report all other General Equipment;
- develop sufficient policies, procedures, and internal controls to value and report an accurate Operating Materials and Supplies balance;
- oversee, monitor, and accurately report property and materials managed and held by contractors and other defense organizations; or
- develop policies, procedures, and internal controls to report complete and accurate Real Property.

EY’s additional report, “Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*,” discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY’s report describes instances in which the DAF General Fund’s financial management systems did not comply with the Federal Financial

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.



Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF General Fund FY 2024 and FY 2023 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2024 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



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Report of Independent Auditors

The Secretary of the Air Force and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the “financial statements”).

We do not express an opinion on the accompanying financial statements of the DAF GF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF GF’s financial statements as of and for the years ended September 30, 2024 and 2023.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, there are several areas where the DAF GF is not following U.S. generally accepted accounting principles. Collections, obligations and outlays presented in the financial statements are misstated for the activity related to joint procurement programs and shared access vendor contracts.

The DAF GF has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on the DAF GF’s financial statements as of and for the years ended September 30, 2024 and 2023 is not currently determinable by the DAF GF and could be material.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF GF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF GF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report. We do not express an opinion or provide any assurance on the information.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2024 on our consideration of the DAF GF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 8, 2024



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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and our report dated November 8, 2024 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters of the DAF GF’s financial statements as of and for the year ended September 30, 2024 is not currently determinable by the DAF GF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF GF’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF GF’s internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF GF’s internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below and in more detail in



Appendix A Items I. through X., we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described below and in Appendix A as Items I. through VIII. to be material weaknesses.

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. We consider the deficiencies in internal control described below and in Appendix A as Items IX. to X. to be significant deficiencies.

Material Weaknesses

- I. Entity Level Controls (ELCs) – Establishing ELCs is a primary step in operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. The lack of sufficient attention to these matters will hinder the entity's ability to remediate existing material weaknesses as well as limit the ability to develop and sustain future financial management capabilities.

During our procedures, we identified the following deficiencies related to the DAF GF's control environment, risk assessment, control activities, information and communication and monitoring components:

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed
- Enterprise IT strategy has not been formalized and fully implemented
- Lack of sufficient and/or sufficiently trained resources
- Additional emphasis needed to meet external financial reporting objectives

II. Integration and Reconciliation of Financial Systems

To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF GF has a complex systems environment consisting of many non-integrated systems that use non-standard and non-compliant data structures. The systems environment is



composed of legacy mainframe, standalone systems and micro-applications, along with its newer general ledger, Defense Enterprise Accounting and Management System (DEAMS). These systems are not integrated and require numerous manual workarounds. The lack of a fully integrated system prevents the DAF GF's management from obtaining timely, complete, accurate and reliable information to make effective business decisions. The DAF GF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Transactions not recorded in accordance with the United States Standard General Ledger (USSGL)
- Insufficient processes and controls to compensate for known DEAMS system design limitations

III. Financial Information Systems – Our assessment of the DAF GF's IT controls and the computing environment identified deficiencies, which collectively constitute a material weakness in the design and operation of information systems controls over financial data.

We identified the lack of sufficient controls in the following areas:

IT General Controls

- Access controls
- Configuration management /system change controls
- Segregation of duties
- Security management

Application Controls

- Interface controls

IV. Accounts Payable (AP), Expenses, and Accounting for Contract Financing Payments (CFP) – AP represents the amount owed to third parties by the DAF GF for goods and services received. Expenses are incurred and recognized when the DAF GF obtains goods and services from the public or other federal entities. CFP are authorized disbursements to a contractor prior to the acceptance of supplies or services by the Government. The DAF GF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls



- Inadequate controls over accounts payable, contract financing payments, expenses, cash disbursement and obligation processes
- Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts

V. Other General Equipment (GE-Other) – GE-Other includes equipment such as support equipment, vehicles, special tooling, special test equipment, general equipment held by others and information technology hardware. The DAF GF has not developed sufficient controls to identify, value and report all GE-Other.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inability to identify a complete population of GE-Other
- Insufficient controls over the valuation and financial reporting of GE-Other

VI. Operating Materials and Supplies (OM&S) – The majority of OM&S is comprised of munitions, spare engines, uninstalled missile motors, OM&S held by others and other weapon system spare parts. The lack of sufficient accounting policies, procedures and internal controls prevents the DAF GF from substantiating the reported balance on the financial statements and the disclosures, including reconciliation to the underlying accountability systems.

We identified the following:

- Lack of sufficient documentation and assessment of accounting policies, procedures and controls
- Insufficient controls over financial reporting of OM&S
- Lack of sufficient accounting processes to value and report OM&S

VII. Property and Materials Held by Others – The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. Generally, the inventory held by others is reported as OM&S and equipment is reported as other general equipment in the financial statements. We found that in many of these instances the DAF GF is heavily reliant upon the other party to provide activity and balances related to those materials.

We identified the following:

- Insufficient oversight and monitoring of OM&S managed by Army and the Defense Logistics Agency (DLA)
- Insufficient oversight and monitoring of government furnished property and contractor-acquired property



- Insufficient oversight and monitoring of the accounting for Joint Strike Fighter (JSF) spare parts and equipment

VIII. Real Property – Real Property includes land, buildings, structures and linear structures. The DAF GF has not sufficiently documented policies and procedures or fully implemented controls over its real property assets. Significant efforts are still needed to remediate identified weaknesses, including the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of real property
- Insufficient review and monitoring of APSR data
- Further procedures are needed to identify the complete population of real property assets
- Insufficient procedures in place to monitor, value and report real property CIP

Significant Deficiencies

IX. Environmental and Disposal Liabilities (E&DL) – E&DL includes the estimated costs associated with clean-up or disposal of military equipment/weapon programs, base realignment and closure, environmental restoration and other environmental liabilities. The DAF GF has not fully designed and implemented internal controls to assess the completeness and accuracy of the entity's recorded liability estimates.

We identified the following:

- Continued refinement over documentation of accounting policies, procedures and controls is needed
- Insufficient procedures in place to record all E&DL
- Lack of sufficient processes to compare actual contract costs to recorded estimates

X. Reimbursable Programs – The DAF GF does not have sufficient controls in place to ensure that reimbursable costs are being properly billed to customers in accordance with their reimbursable agreements/customer orders.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of reimbursable agreements
- Lack of sufficient reviews over reimbursable activity



DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 8, 2024. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 on our tests of the DAF GF's compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's compliance.

Ernst & Young LLP

November 8, 2024



Appendix A

Material Weaknesses

I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing Entity Level Controls (ELCs) is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF GF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with the Enterprise Risk Management and Fraud Risk Management requirements to improve effectiveness and accountability, instead of considering internal control as an isolated management tool. Thus, internal control should be an integral part of the entire cycle of planning, budgeting, management, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF GF has cross-cutting financial, information technology (IT), and operational risks that impact the entity's ability to achieve and sustain an effective internal control environment. Although the DAF has started to develop an integrated prioritization for evaluating and remediating these risks (in concert with its roadmap towards becoming auditable), limitations on time and resources creates further disparities in achieving those objectives. Without immediate action and sufficient attention to these matters, the DAF GF will be challenged to remediate existing material weaknesses timely.

During our procedures, we identified the following deficiencies that aggregated into this material weakness:

(a) Enhanced integration and oversight of risks by enterprise-wide leadership is needed

The Deputy Assistant Secretary for Financial Operations (SAF/FMF and SAF/FM CIO) has the primary responsibility for the DAF's financial statement audit readiness and compliance; however, efforts supporting financial statement audit and audit remediation requires inputs from the entire



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organization, including major commands (MAJCOMs), field commands (FIELDCOMs) and Headquarters Air and Space Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

We identified the following conditions that indicate a lack of consistent integration and oversight across the DAF to sufficiently address financial reporting issues and risks:

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF GF’s governance activities continue to mature as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how the DAF GF’s enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. As a result, service providers, functional communities, SAF/FM, and IT may be developing separate and disconnected remediation efforts that may not necessarily be tied to the risks of material misstatements. Additionally, Enterprise leadership is not fully integrated in the evaluation of risks (i.e. detect and correct approach versus designing a preventative measure to get it right the first time) and in determining the best course of action for the entity as a whole thereby leading to corrections being made by SAF/FM on the back end to correct for data anomalies instead of analyses being executed up-front. Furthermore, the DAF GF’s Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.
- **Insufficient communication and assessment of the financial statement impact resulting from ongoing operations**—For example, while the DAF GF has begun assessing the impact of the United States Space Force (USSF) on the entity’s financial statements and internal control over financial reporting, there still is significant effort in identifying appropriate separation of responsibilities and sufficient oversight of accounting considerations. Also, the organization has not fully assessed how certain non-financial data in mixed systems (e.g., logistics systems) impacts the financial statements.

(b) Enterprise IT strategy has not been formalized and fully implemented

In accordance with the GAO Green Book, management should design information system and related control activities to achieve objectives and respond to risks. An information system is the people, processes, data, and technology that management organizes to obtain, communicate or dispose of information. Information technology enables information related to operational processes to become available to the entity on a timelier basis.

We identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy related to internal control over financial reporting:



- **Lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems**—An overarching Business Mission Area (BMA) Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.
- **Inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigation strategies across the enterprise**— The financial management portfolio board with representation from The Office of the Assistant Secretary of the Air Force for Acquisition, Technology and Logistics (SAF/AQ), the Defense Finance Accounting Service (DFAS), Deputy Under Secretary of the Air Force, Management (SAF/MG) among others meets on a monthly basis to discuss the current status of application consolidation/modernization, status of CAPs and related matters. However, the financial management portfolio board’s oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the DAF GF exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated. Internal controls and specifically IT controls are not fully integrated during new application implementation and/or legacy application modernization.

During the current year, DAF continued to enhance and implement its Defense Business System (DBS) Strategy to identify and guide investment in core enterprise business systems and technology platforms. DAF is implementing efforts to perform end-to-end enterprise management with the goal to increase interoperability and data integrity/security across and amongst DBS. DBS transformation consists of several working groups across governance, performance metrics, life cycle management, and health/compliance assessments. DAF’s focus will be on Enterprise and process management with its DBS, along with continuous modernization and retirement.

(c) Lack of sufficient and/or sufficiently trained resources

The ability to develop, implement and execute effective internal control over financial reporting is dependent on the entity hiring, training and retaining sufficient qualified resources in key roles to understand and direct the control activities related to financial reporting across the organization. Further, in an organization of this size and complexity, succession and contingency plans for key roles help the entity continue achieving its objectives. Consequentially, there are severe impacts to the DAF GF’s current audit roadmap and completion dates for corrective actions when there is a lack of sufficient and/or sufficiently trained resources to address identified internal control deficiencies. In addition, limitations in IT systems delay the remediation of internal control deficiencies because of manual workarounds, further stressing the entity’s resource capacity.



We recognize in the prior year DAF completed an FM Workforce Organizational Assessment that included collection and analysis of quantitative and qualitative data to identify skills gaps and workforce improvement opportunities; yet management has not demonstrated how the results and action items from this study were implemented.

Accordingly, the following conditions indicate a need for enhanced focus on the Green Book requirement to demonstrate a commitment to recruiting, developing, and retaining competent individuals:

- There are not sufficient succession or contingency plans to mitigate the impact of retirements or other unexpected departures. For example, SAF/FMF has a number of unfilled roles or individuals transitioning into new areas.
- Lack of sufficiently defined competencies, roles, responsibilities and expectations for key FM or Financial Improvement and Audit Remediation (FIAR) roles.

As a result, the lack of sufficient attention to these resource constraints will hinder the entity's ability to remediate existing and future material weaknesses as well as limit the ability to develop and sustain future financial management capabilities.

(d) Additional emphasis needed to meet external financial reporting objectives

While the DAF GF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF GF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF GF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. The DAF GF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF GF and could be material.

Enhanced financial statement review procedures are needed

The DAF GF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:



- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Inability to fully understand and explain major changes in balances or activity.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as the lack of complete and accurate disclosures.

The DAF GF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans and annual results of the DAF GF.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed:
 - Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
 - Refocus the execution for risk identification and communication within the organization to a primary focus on the most critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.) that have risks of material misstatements.
 - Continue to develop mechanisms to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
 - Enhance formal lines of communication about ongoing operational activities that impact the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.
- Enterprise IT strategy has not been formalized and fully implemented:
 - Finalize the DAF Business Mission Area strategic plan for Defense Business Systems (DBS) to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts. Consider including the following elements:
 - Plan to continually retire/decommission legacy applications as evidenced by detailed system migration plans with milestones and critical path dependencies. Additionally, plan to reduce the number of duplicated system functions to simplify the DBS portfolio in the Business Mission Area.
 - Develop and consistently implement an enterprise-wide, comprehensive plan to improve DBS data analytics.



- Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide holistic understanding of risks across the enterprise.
- DAF should continue to prioritize remediation of IT findings based on the severity of the finding and the impact on remediating deficiencies related to applicable financial business processes while continuing to integrate DAF's IT modernization plan and timelines as part of this prioritization effort.
- Implement automated control processes to assist in sustaining effective controls over the long-term (i.e. ICAM, SIEM and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.
- Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts. This will prevent repetition of similar findings across the enterprise.
- Bridge potential workforce requirement gaps through enhanced documentation and knowledge management practices.
- Demonstrate policy outlining system responsibilities for asserting auditability requirements and approval authority for validating auditability. Specifically, incorporate compliance requirements with applicable policies, laws and regulations (e.g., National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5, the Federal Information System Controls Audit Manual (FISCAM), the Federal Financial Management Improvement Act of 1996 (FFMIA), etc.) throughout the system lifecycle management as specified by DAF policies (Business Capability Acquisition Cycle (BCAC)).
- Lack of sufficient and/or sufficiently trained resources:
 - Continue to develop and enhance core and specialized training to further enhance competencies in internal control concepts and accounting topics.
 - Assess the impact on the resources needed to support manual workarounds against the additional investment that may be necessary to address any IT system limitations causing such manual activities. Align these considerations to the organization's IT strategic vision and priorities impacting internal control over financial reporting.
 - Clarify the competencies, roles, responsibilities and expectations of key roles and responsibilities in relation to internal control over financial reporting.
 - Develop appropriate succession and contingency plans for key roles.
- Additional emphasis needed to meet external financial reporting objectives:
 - Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
 - Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
 - Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.



II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provides timely access to better data for decision-making purposes.

Although the DAF GF is progressing towards modernized financial systems, the entity's system environment continues to include legacy and standalone systems. This includes the DAF GF's legacy general ledger system, General Accounting and Finance System-Reengineered (GAFS-R). While the DAF GF is prioritizing investment on more modernized IT systems, such as DEAMS, NexGen IT, and CON-IT, and cloud hosting environments, such as Amazon Web Services (AWS) and Microsoft Azure, the DAF GF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment.

As the DAF GF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF GF will continue to experience many of the similar challenges discussed within this report which will further inhibit the entity's ability to produce timely and auditable financial statements and remediate existing material weaknesses.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF GF's system environment, which includes legacy systems and more modernized systems relies on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. This limits the entity's ability to fully validate beginning and ending balances as well as financial activity. The lack of integration prevents information/data from processing without significant manual intervention. Additionally, many of the DAF GF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses.

Inability to rely on completeness and accuracy of data utilized in key financial controls

General Accounting & Finance System Base Level (GAFS-BL or GAFS-BQ) is a system utilized by the DAF GF to process, summarize, and report financial data on a budgetary basis of accounting (e.g., authorizations, commitments, obligations, expenditures). GAFS-BL data interfaces with



GAFS-R and it is within GAFS-R that this data is aligned to applicable general ledger accounts that comprise the financial statements. The DAF GF also utilizes the Commander's Resource Integration System (CRIS). CRIS provides a set of queries, analyses, and reporting tools used by base-level and financial oversight personnel to access data from multiple legacy systems, including GAFS-BL. Data obtained by CRIS is used regularly in the execution of key financial control activities impacting the financial statements.

The DAF GF is unable to evidence that amounts queried from GAFS-BL via CRIS and utilized in the execution of key controls throughout business processes are representative of the complete and accurate set of transactions ultimately reported in the general ledger (i.e., GAFS-R). While the DAF GF has made progress in identifying and resolving certain variances in specific business processes, the entity is unable to fully reconcile GAFS-BL to GAFS-R. Additionally there are not sufficient interface controls between GAFS-BL and CRIS. As a result, DAF GF may not be able to support the operating effectiveness of controls utilizing GAFS-BL data queried via CRIS.

Lack of sufficient or accurate data elements to enable effective data transfer and reconciliation

The DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and GAFS-BL or GAFS-R. The DAF GF's data does not always contain sufficient or accurate data elements to enable effective data transfer. If an incoming transaction does not contain the necessary data elements, or there are other issues with the transaction, the transaction may not post in the general ledger. These transactions are suspended pending further review and analysis. While the DAF GF, in working with DFAS, has created a variety of reconciliations to research and address these errors, these errors are not always resolved in a timely manner. No provision is made to reflect the unreconciled activity in period-end financial statements.

Similar to the legacy environment, the DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and DEAMS. There are transactions on error reports that are not resolved at period-end and the DAF GF does not record a period-end adjustment to reflect the value of unresolved transactions that should have been posted to DEAMS.

While the DAF GF has continued to leverage Advanced Analytics (ADVANA) to assist with its universe of transactions validation efforts, including the development of subledger to general ledger and feeder system reconciliations, many reconciliations remain in progress. Continued efforts are needed for the reconciliations to be operational across the universe of transactions.

Inability to accurately categorize or identify all relevant transactions

The DAF GF has continued to make progress in the development of the quantitative drilldown (QDD), a custom report that will be utilized to provide additional detail on transactions within



GAFS-R and DEAMS. The QDD for each of the general ledgers is intended to extract and categorize data into the applicable category and/or business process. While the DAF GF has developed business rules to categorize certain transactions, these rules are neither complete nor accurate for all processes and there is a large population of uncategorized transactions in both GAFS-R and DEAMS. As a result, the DAF GF lacks controls to consistently and accurately categorize or identify all relevant transactions within each of its financial reporting systems.

Inability to support JVs or other manual workarounds

Journal vouchers (JVs)—Due to the lack of a fully integrated system, the DAF GF records a significant volume of JVs to account for ongoing activity as well as address errors in processing. Some of these JVs are not adequately supported (e.g., trading partner adjustments) or mapped to the Treasury Financial Manual (TFM). Additionally, the use of manual JVs or on-the-top adjustments that are booked at a summary level can inhibit the auditability of the amounts being recorded and further management analysis.

Miscellaneous obligation and reimbursement documents (MORDs)—MORDs are intended to be used to temporarily record known obligations or reimbursements when the required documents to support the obligation/reimbursable transactions are not immediately available, as well as other limited purposes. Although there is significant usage of MORDs throughout the organization for varied purposes, the DAF GF is unable to provide a complete and accurate listing of all MORDs by various MORD types. While the entity has evaluated its overall MORD guidance, the DAF GF has not sufficiently assessed the related control activities for material MORD activity impacting its business processes/assessable units.

(b) Transactions not recorded in accordance with the USSGL

The DAF GF does not have controls to configure the posting logic in its general ledgers to be compliant with the United States Standard General Ledger (USSGL) or sufficient controls to link business events to the correct posting logic. Not all transactions in GAFS-R or DEAMS posting logic are appropriately mapped to validate their compliance with the TFM. As a result, transactions are not always recorded appropriately.

(c) Insufficient processes and controls to compensate for known DEAMS system design limitations

As discussed above, DEAMS is currently one of the DAF GF's two general ledgers along with GAFS-R. The DAF GF is scheduled to "sunset" GAFS-R in future fiscal periods. While DEAMS has the capability to be an enterprise resource planning system, we identified several systems and related business processes that are not currently integrated or directly interfaced with DEAMS.



Despite certain manual workaround or reconciliations being developed, the DAF GF does not have sufficient controls in place to compensate for known system limitations within DEAMS.

For example, additional manual workarounds or reconciliations have resulted from:

- DEAMS not appropriately post progress payments due to system limitations.
- Limitations resulting in the DEAMS trial balance and related activity to be out of balance.
- Lack of sufficient system integration and monitoring of direct data changes.
- Lack of unique and appropriate data elements and need for manual data entry for specific fields within DEAMS.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Inability to validate the completeness of transactions underlying the financial statements:
 - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the financial statements, including validation of beginning and ending balances, as well as financial activity.
 - Ensure that variances identified in any universe of transactions reconciliation are investigated and remediated on a timely basis. Evaluate whether changes can be made to the existing business processes to prevent future variances.
 - Establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.
 - Perform an analysis of the period-end reconciling items that documents the appropriate adjustments for any unrecorded transactions. If an adjustment cannot be determined, or if the DAF GF management decides to not make an adjustment, the DAF GF should document the impact of not recording an adjustment, including an assessment of the impact of these unrecorded transactions on the financial statements.
 - Continue efforts to develop interoperability across the financial and financial feeder systems and further refine the QDD at a sufficiently precise level of detail to accurately classify, categorize, and identify transactions within DEAMS and GAFS-R, including MORDs and JVs. These efforts should incorporate involvement and input from key stakeholders and business process leads.
 - Continue to address other applicable findings related to GAFS-R system environment and related transaction quality based on the materiality of transactions still processed by the system by developing a solution that supports the interoperability of financial and financial feeder systems at the detailed transaction level.
 - Identify the risks that are related to the financial statement line items, relevant assertions, and general ledger accounts by MORDs. Based on the risks, the DAF GF should perform the following:



- Continue documenting the process flow of transactions that generate those risks and the process owners responsible for assessing the risks.
 - Identify and document the corresponding key controls that address those risks to adequately account and report the financial statement line item.
 - Continue to update the entity's financial reporting environment in response to previously reported findings or other ongoing efforts.
- Consider performing an entity-wide analysis over DEAMS and GAFS-R JVs to evaluate if additional centralized oversight is needed to monitor whether JVs are being used for the intended purposes as stated within the entity's policy and are appropriately reviewed and approved.
- Evaluate formalizing a process to ensure sufficient monitoring and oversight related to transactions primarily handled by DFAS.
- Consider implementing system changes to DEAMS to post transactions through the normal course of business whenever possible. As part of this process, where applicable, the DAF GF should identify areas where systematic JVs can be utilized in instances where manual JVs are recorded.
- Continue to assess, based on GAFS-R decommissioning timelines, whether additional internal controls are needed to compensate for known deficiencies as long as material activity is reported within GAFS-R.
- Transactions not recorded in accordance with the USSGL:
 - Perform an analysis to determine the impact on financial statements of noncompliant posting or other system logic within GAFS-R.
 - Improve monitoring over GAFS-R and DEAMS, including establishment of posting logic data validation procedures, to identify and correct accounting that does not comply with the TFM and take corrective actions.
- Insufficient processes and controls to compensate for known DEAMS system design limitations:
 - In collaboration with all interested parties, analyze the system limitations described above and other known instances:
 - Determine whether additional system changes or revised processes may be necessary to facilitate more automated and integrated solutions.
 - Consider the long-term requirements for resources and funding that is necessary to effectively implement any additional changes.
 - As the DAF moves towards decommissioning GAFS-R and other legacy systems, and related business processes transition to DEAMS, continue to consider the impact on the design and functionality of DEAMS.
 - Assess the increased usage of additional system edit checks and/or controls to prevent processing errors rather than relying primarily on detective controls.
 - Evaluate, design, and implement the relevant compensating controls to address the system limitations.



III. FINANCIAL INFORMATION SYSTEMS

Information System (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- IT General Controls
 - Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
 - Configuration Management (CM): Controls provide reasonable assurance that changes to the information system (e.g., code and configurations) are authorized and operating as intended.
 - Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are identified and effectively segregated enforcing principle of least privilege.
 - Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are effectively implemented.
- Application Controls
 - Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is completely and accurately processed into the receiving systems.

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF GF's financial statements, financial reporting, IT environment, and financial applications.

The DAF GF continues to make progress in remediating prior year IT findings. For example, program and functional management across DAF resolved many prior-year control deficiencies related to validation of completeness and accuracy for reports used for management review controls, monitoring of system changes as part of configuration management, and system security settings (e.g., database and operating system passwords).

As the DAF GF continues to modernize IT applications, it is critical to integrate information systems controls as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF GF's IT controls environment post implementation. The DAF GF also needs to evaluate the impact of existing IT deficiencies on future material weakness mitigation efforts.

For example, insufficient consideration of the impact of relevant IT system findings and prior year management risk acceptance conclusions (e.g., lack of sufficient controls over relevant interfaces) continues to impact the DAF GF's ability to utilize and rely on data extracted and used in the



execution of financial control activities. The DAF GF's leveraging of the lessons learned from successful remediations of IT general and application controls deficiencies across financially significant applications is critical as existing investments are made by the DAF GF and for overall sustainment of an effective IT control environment.

While the DAF has remediated many audit findings across various IT control areas for fiscal year 2024 (FY24), a majority of the DAF GF's in-scope financial applications however, had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties and change management control domains.

Ineffective IT general controls will continue to impact any of the DAF GF's material weakness mitigation plans in future years. For example, the lack of adequate IT general controls around both large and micro-applications, ad-hoc reporting tools, etc., used for reconciliation of financially significant data, increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations.

Management's inability to leverage critical existing functionalities available within financial applications is leading to the DAF GF not realizing the full return on investment (RoI) already made in modernizing its IT infrastructure coupled with an inability to rely on application controls where most financial transaction processing efficiencies could be gained. As a result, this inhibits the DAF GF's ability to enhance the timeliness, availability and accuracy of information, as produced by IT systems, without manual intervention. For example, management has not fully leveraged:

- Additional edit checks and/or controls embedded within an application to prevent processing errors rather than relying primarily on manual detective and workaround controls.
- Existing logging capabilities (or leverage commonly used logging technology consistent with a given environment, e.g., cloud environment audit tools) to produce and retain complete and accurate audit trails of changes to software production code, application configurations, data directly modified by database accounts and key reports.
- Knowledge of how information produced by the entity is generated from source systems to validate and document the completeness and accuracy of data used in management review controls and reporting.



(a) Access Controls

Access controls include those related to protecting user identification and authentication, authorization, protecting sensitive system resources, as well as audit and monitoring. When access controls are properly implemented, logical access to relevant computer programs and data is granted appropriately to only authorized users. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed.

We identified the following:

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Access requests and authorized approvals are not being properly documented prior to provisioning.
- Periodic reviews of access, including privileged user access, were not performed appropriately.
- Procedures for monitoring and auditing financial relevant user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system and manually generated reports used for access activity and review controls are not being validated by management responsible for reviewing these reports.
- Password and other security settings are not properly configured based on management policies and/or best practice.
- Role-based access controls are not enforced to restrict users from combining incompatible roles/functions.
- The entity was not able to provide a complete and accurate listing of contractor and personnel terminations.

(b) Configuration Management/System Change Controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point, and systematically control changes to the system baselines during the system's life cycle. By implementing configuration management controls, the DAF GF can ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Configuration management includes:



- Overall policies and procedures and maintaining current system baselines;
- Authorizing, testing, and approving configuration changes;
- Monitoring the configuration, updating software on a timely basis; and Documenting and controlling emergency changes.

We identified the following:

- Lack of segregation of duties throughout the change management process, in which developers were granted inappropriate access that allows them to make changes directly in production environments without appropriate compensatory controls.
- Changes are not properly reviewed, approved, tested, and documented.
- Code and configuration changes to production environments are not being monitored to verify for appropriateness.
- Direct changes to data in production are not monitored and made without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports used for change monitoring controls are not being verified by management responsible for reviewing these reports.

(c) Segregation of Duties (SoD)

Segregation of duties refers to the policies, procedures, and organizational structures that help ensure that no single individual can independently control all key aspects of a process or computer-related operation and thereby gain unauthorized access to assets or records. By implementing effective SoD controls, the likelihood that errors and wrongful acts will go undetected diminishes, because the activities of one individual or group will serve as a check on the activities of the other. Effective segregation of duties includes segregating incompatible duties, maintaining formal operating procedures, supervision, and review.

We identified the following:

- Policies and procedures did not identify potential SoD conflicts within the applications.
- Some systems do not have a fully comprehensive matrix and/or enforcement of access restrictions based on the SoD matrix are not being implemented consistently.
- Controls were not in place to detect whether conflicting roles were assigned to individuals during the access provisioning process, and for known conflicts where SoD concerns were identified, subsequent logging and review of a user's activity was not in place and monitored for appropriateness.



- Conflicting roles that were deemed necessary or required due to a business need were not documented, assessed, and monitored for usage on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions; for example, users were able to add, modify, and delete user access to the application, while also having access to process and modify production data.
- The completeness and accuracy of system and manually generated reports used for SoD monitoring controls are not being verified by management responsible for reviewing these reports.

(d) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing, and implementing effective security procedures, and monitoring the effectiveness of these procedures. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures and controls implement the entity-wide policy. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources.

We identified the following:

- Plans of action milestones (POA&Ms) for open vulnerabilities are not actively being managed through completion.
- Periodic review of POA&M implementation progress is not being conducted timely.
- For systems that have IT processes, such as infrastructure hosting, managed by a service organization (e.g., DISA, CloudOne (C1)), (1) SOC reports are not being properly reviewed for impacts of SOC findings as well as applicability of CUECs, or (2) in the absence of a SOC report, management is not obtaining sufficient evidence from third parties to evidence the effectiveness of their controls that are relevant to the DAF information systems.
- There is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.

(e) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis. The objectives of interface controls are to:



- Implement an effective interface strategy and design.
- Implement effective interface processing procedures, which includes the reasonable assurance that:
 - Interfaces are processed completely, accurately, and only once in the proper period.
 - Interface errors are rejected, isolated, and corrected in a timely manner.
 - Access to interface data and processes are properly restricted.

We identified the following:

- Interface files are not protected from unauthorized access and modification.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- Appropriate procedures for interface error identification and correction are not in place or are not being consistently performed.
- The completeness and accuracy of system and manually generated reports used for interface review controls are not being verified by management responsible for reviewing these reports.
- Procedures are insufficient to restrict the processing of interface files more than once.

Recommendations:

The DAF GF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF GF's IT modernization plan and timelines as part of this prioritization effort.

Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

The DAF GF should establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

The DAF GF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management, and interface procedures to include:

- Access controls /segregation of duties:
 - Implement monitoring and review controls for users with elevated access privileges.
 - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.



- Develop, document and implement procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures. Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
- Document policies to define procedures required to investigate activities of unauthorized users identified during periodic user access reviews. For example, establish look-back procedures that involve review of audit logs to detect and remediate the activities of the unauthorized user.
- Perform procedures to gain comfort over the completeness and accuracy of reports utilized in periodic user access reviews. For example, review and retain the parameters of the script utilized.
- Configuration management / system change controls:
 - Implement segregation of duties within the configuration/change management process, in which developers should not have access to migrate changes to production. Appropriate risk assessment and compensatory controls should be in place for system operational purpose if needed.
 - Document and retain adequate evidence of change requests, testing, and approvals.
 - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
 - Implement controls verifying the completeness and accuracy of management reports.
 - Restrict access to application source code to only authorized users.
 - Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
 - Establish baselines for scripts utilized to generate change monitoring reports and compare current versions of scripts to the baseline to determine if unauthorized changes were made to code.
 - Document requirements for periodic reviews of script logic within policies and define follow-up procedures to investigate unauthorized changes.
- Security Management:
 - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
 - Define and implement consistent procedures related to periodic security controls assessments and testing.
 - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
 - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.



- **Interface controls:**
 - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
 - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces.
 - Develop, document and implement procedures for performing interface error handling and correction.
 - Restrict access to interface files and interface processing programs to authorized users and monitor these users' access for continued appropriateness.
- **Data completeness and accuracy – applicable to all control areas:**
 - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.
 - Develop and implement controls to maintain the integrity, completeness and accuracy of data throughout the system modernization cycle.

IV. ACCOUNTS PAYABLE, EXPENSES AND ACCOUNTING FOR CONTRACT FINANCING PAYMENTS

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The DAF GF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), expenses, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF GF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers (e.g., DFAS, Defense Contract Management Agency (DCMA)), timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do



not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Inadequate controls over AP, CFP, expenses, cash disbursement and obligation processes

The DAF GF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the “Integration and Reconciliation of Financial Systems” material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, the entity is unable to categorize data from its universe of transactions into applicable categories or relevant business processes and the entity’s posting logic in key financial systems is not always in accordance with the TFM. In FY24, the DAF GF updated its posting logic for CFP to comply with TFM guidance and corrected a large amount of the remaining balance; however, further evaluation of remaining balance is ongoing. As a result of these challenges, the DAF GF has not fully designed relevant account reconciliations (e.g., AP, advances and prepayments, outstanding CFP), account rollforwards, or other analyses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over AP, CFP, expenses, cash disbursement and obligations processes have had a downstream impact on other processes, particularly FBwT and Military Equipment, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls or other system changes that may be necessary to better support budget execution and monitoring.

(c) Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts

The DAF GF has indicated that amounts presented for collections, obligations and outlays related to joint procurement programs and shared access vendor contracts may not be materially correct. While the activity for these programs and contracts may be accounted for in accordance with DoD policies, in some instances, the accounting treatment may not be in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Collections, obligations and outlays of the DAF GF are misstated by any difference between the DAF GF expenditures and the DAF GF actual specific allocations of contract cost, which cannot be calculated. Additionally, due to a lack of comprehensive financial management policies related to these activities and an insufficient



assessment of relevant guidance, the accounting treatment in some instances may not be in accordance with GAAP.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify the risks that are posed to the financial statement line items, relevant assertions and general ledger accounts for these cycles. Based on the risks, the DAF GF should perform the following:
 - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within the DAF GF and third-parties) responsible for assessing the risks.
 - Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF GF monitoring controls over the procedures and controls performed by the third-party service organizations.
- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.
- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments/outstanding contract financing payments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.



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- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.
- Implement the following due to insufficient controls over the accounting for joint procurement programs and shared access vendor contracts:
 - The DAF GF should identify a complete and accurate population of all joint procurement programs and shared access vendor contracts.
 - The DAF GF should implement monitoring procedures over recorded disbursements and collections to validate they represent transactions incurred by the DAF GF and are recorded in accordance with US GAAP.

V. OTHER GENERAL EQUIPMENT

The DAF GF's Other General Equipment (GE-Other) includes support equipment, vehicles, special tooling, special test equipment, general equipment held by others (e.g., contractors) and information technology hardware.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for GE-Other are not accurately and/or sufficiently assessed and documented. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (e.g., Defense Property Accountability System (DPAS)), insufficient oversight and monitoring of service providers and contractors, as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., procure to pay).

(b) Inability to identify a complete population of GE-Other

The DAF GF has not validated the population of GE-Other. As a result, the DAF GF is currently unable to provide a complete population of GE-Other, which may be understated.

(c) Insufficient controls over the valuation and financial reporting of GE-Other

Controls have not been implemented to fully reconcile balances being reported for GE-Other to the financial statements and identified variances have not been investigated or resolved. The DAF GF is currently unable to identify, analyze and report values for each sub-asset class comprising GE-Other. Additionally, the DAF GF has not fully developed or implemented the accounting and



valuation methodologies set forth in SFFAS 6 or SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (SFFAS 50).

The DAF GF has also not fully assessed the compliance of its proprietary and corresponding budgetary transactions with the TFM.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Continue to develop sufficient controls and policies around the DPAS APSR to consistently recognize, measure, and disclose equipment in accordance with SFFAS 6 and SFFAS 50.
- Continue efforts to identify the complete population of all GE-Other assets and corresponding validation efforts over the asset data being entered into DPAS.
- Perform reconciliations between the balances reported in DPAS and the general ledger. Take actions to resolve identified variances, if any.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.

VI. OPERATING MATERIALS AND SUPPLIES

The majority of Operating Materials and Supplies (OM&S) is comprised of munitions, spare engines, uninstalled missile motors, OM&S held by others and other weapon system spare parts.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation and assessment of accounting policies, procedures and controls

The complete end-to-end process flows, procedures and key controls for portions of the OM&S process are not accurately and/or sufficiently assessed and documented. The DAF GF's PCMs lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers and contractors, segregation of duties considerations, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., procure to pay).



The DAF GF's controls to ensure assets are completely and accurately recorded in the APSRs are not effectively designed to achieve financial reporting objectives. The following examples highlight the importance of coordination between the financial management and others in the functional community regarding the accounting/financial reporting impact of financial and non-financial data maintained by others:

- The DAF GF has not fully identified, assessed and responded to the financial statement risks associated with OM&S system migrations and sustainment. For example, there is not a documented assessment of how the DAF GF implemented the Defense Logistics Management Standards (DLMS) for recording logistics transactions to align with respective financial transactions required within the TFM. Accordingly, the DAF GF should determine impacts and/or necessary updates to Theater Integrated Combat Munitions System (TICMS) APSR or the Munitions financial reporting process.
- The DAF GF has not evaluated and/or fully documented its assessment of the following in accordance with relevant accounting standards, including:
 - Appropriateness of posting logic used to generate reports for financial reporting
 - Alignment of munition condition codes to USSGL accounts
 - Alignment of logistics supply categories to USSGL accounts
- The DAF GF lacks a centralized review and monitoring control over all physical inventory counts to ensure completeness, accuracy and timely completion. The DAF GF's physical inventory policy addresses general asset safeguarding, but does not respond to the risk of material misstatements to the financial statements at year-end as it does not contain rollforward procedures from the last physical inventory count to the year-end.

(b) Insufficient controls over financial reporting of OM&S

Controls have not been fully developed and implemented to reconcile asset balances being reported for OM&S in its APSRs to the general ledger, including the investigation and resolution of identified variances on a timely basis. The DAF GF also does not have sufficient controls to ensure that all OM&S as required is being recorded in the financial statements.

Additionally, the DAF GF does not perform reconciliations between OM&S proprietary and corresponding budgetary transactions.

(c) Lack of sufficient accounting processes to value and report OM&S

The DAF GF has not implemented nor applied the costing and valuation methodologies set forth in SFFAS 3, *Accounting for Inventory and Related Property* (SFFAS 3), or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (SFFAS 48). The DAF GF has not demonstrated a systemic capability to integrate OM&S actual historical costs, including purchase, production and transportation costs, and calculate the value of the assets in



accordance with SFFAS 3 across its acquisition, logistical and financial (both general ledger and payment) systems. The DAF GF also lacks policies and procedures for the proper valuation of excess, obsolete, and unserviceable OM&S and repair allowances.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Evaluate and redesign controls where roles and responsibilities of the control owner include a combination of authority, custody, and accounting to enforce segregation of duties.
- Identify, assess and respond to the financial statement risks associated with OM&S system migrations and sustainment. Specifically, the DAF GF should analyze and document APSR systems' logic to validate TFM compliance for logistics transactions that result in financial transactions.
- Establish criteria, as well as policies and procedures on how to implement the proper use of Logistic Supply Condition Codes and Logistic Supply Categories impacting financial reporting.
- Document end-to-end process flows including the documentation of controls, applications and related business processes that are aligned to the flow of financial information from initiation to reporting. This flow should contain an accurate and complete population of events that result in financial transactions and include all relevant applications and interfaces between systems. This effort requires enhanced coordination between financial and logistics stakeholders to identify, assess and respond to the impact of logistics transactions on information used for financial reporting.
- Develop and implement APSR to general ledger reconciliations. When variances are identified, take and document the corrective actions to resolve the variances.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.
- Evaluate OM&S processes to determine appropriate actions needed for implementing valuation at historical cost or any method approximating historical cost (e.g., standard cost or latest acquisition cost) and report those values on the entity's financial statements in accordance with SFFAS 3.
 - Establish a formalized plan and timeline for completion of efforts for those OM&S assets to account for inventory and related property under SFFAS 3. This plan should include the systemic components and controls necessary to properly integrate from an internal control over financial reporting perspective and reconcile the acquisition, logistics, and financial (general ledger and payment) system transactions to the general ledger and financial statements.



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- Complete any open efforts for beginning balance valuation in accordance with SFFAS 48 and any related implementation guidance and for SFFAS 3 valuation ensure that purchase, production and transportation costs are accumulated and supporting documentation is available and retained.
- Institute review and monitoring controls to ensure physical inventory counts are monitored for completeness, accuracy and timely completion. Furthermore, implement and document alternative procedures to rollforward the periodic physical inventory counts to year end.

VII. PROPERTY AND MATERIALS HELD BY OTHERS

The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. Generally, this inventory held by others is reported as OM&S and the equipment is reported as GE-Other in the financial statements.

The following deficiencies aggregated into this material weakness:

(a) Insufficient oversight and monitoring of OM&S managed by Army

The Army performs munitions inventory management services for approximately a third of the entity's total munitions. The DAF GF utilizes TICMS, which provides for the DAF GF to receive transactional-level quantity updates from Army's Logistics Modernization Program (LMP) system via a standardized DLMS interface. TICMS has the capability to detect mismatches in inventory quantity for a given stock number at a Department of Defense Activity Address Code (DoDAAC) level via a live Inventory Mismatch Report. However, the DAF GF has not fully developed controls around the evaluation and resolution of the variances identified through this reconciliation process between TICMS and LMP. In addition, the DAF GF has not developed a comprehensive asset level reconciliation process for all National Stock Number and DoDAACs between TICMS and LMP.

The DAF GF has not fully evaluated and documented its assessment of controls performed by Army on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by Army on its behalf.

(b) Insufficient oversight and monitoring of OM&S managed by DLA

Also included in OM&S are supplies managed by the Defense Logistics Agency (DLA). The DAF GF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System application. The DAF GF does not have sufficient policies or procedures in place to perform reconciliations for assets managed by DLA and reported by the DAF GF. When there



are discrepancies, the DAF GF adjusts their inventory counts to the amounts reported by DLA without reconciliation or explanation of variances.

The DAF GF has not fully evaluated and documented its assessment of controls performed by DLA on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by DLA on its behalf.

(c) Insufficient oversight and monitoring of GFP and contractor-acquired property

Government property in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. GFE is included within GE-Other and contractor-acquired property can either be OM&S or GE-Other. The DAF GF lacks policies and procedures to sufficiently maintain accountability for, and to financially report, property in the custody of contractors. The DAF GF is unable to provide a complete listing of GFE and contractor-acquired property and has not developed or implemented controls for the recording and monitoring of these assets.

Additionally, the DAF GF lacks sufficient oversight and monitoring controls over contractor inventory control points (C-ICP). C-ICP represents the portion of DAF GF-owned OM&S assets that are maintained at commercial entity locations for wholesale distribution. The DAF GF has not developed sufficient policies and internal controls to identify, validate and financially report all C-ICP programs and is unable to determine the materiality of C-ICP programs currently not reporting. At a program level, the DAF GF has not developed oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact, such as recording new receipts, beginning balances, valuation calculations, updating condition codes and performing periodic physical inventory counts.

(d) Insufficient oversight and monitoring of the accounting for JSF spare parts and equipment

The JSF program is a joint, multinational acquisition program intended to develop and field a family of next-generation strike fighter aircraft for the DAF GF, Navy and Marine Corps, as well as other international partners and foreign military sales customers. As one of the program participants, the DAF GF contributes a percentage of the annual procurement costs to the global pool of assets, including spares and equipment. The DAF GF currently does not report an asset on the balance sheet to represent this future benefit. To address this issue, the DAF GF is working with the JSF Program office to develop a formalized process for accounting and reporting.



Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Improve oversight of OM&S managed by Army and DLA:
 - Munitions
 - Continue to design and implement oversight and monitoring controls, specifically over munitions balances posted by service providers, including end-to-end process flow, controls and third party monitoring controls impacting internal control over financial reporting to validate the completeness and accuracy of balances posted.
 - Design and implement comprehensive asset level reconciliation controls for all NSNs and DoDAACs between Army LMP and TICMS.
 - Supplies
 - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include oversight and monitoring controls to assess the completeness and accuracy of information reported.
 - Develop a process to routinely monitor variances between DLA and the DAF GF and determine a resolution.
 - Evaluate and document its assessment of controls performed by DLA and all DLA functions material to the DAF GF's internal control environment. In addition, develop third party monitoring controls in response to service organization risks.
- Improve oversight and monitoring of GFP and contractor-acquired property:
 - Complete actions to obtain complete populations of property held by contractors.
 - Develop sufficient oversight and monitoring controls to effectively monitor contractors, including the development of reconciliations between the DAF GF and contractor records. In addition, these oversight and monitoring controls should be designed to evaluate and assess contractor executed procedures that have a financial impact and are important to internal control over financial reporting, such as recording new receipts, beginning balances, valuation calculations, updating condition codes and performing periodic physical inventory counts.
- Insufficient oversight and monitoring of the accounting for JSF spare parts and equipment:
 - Continue to work with the JSF Program office to develop and implement policies and procedures to properly account for, monitor and report its share of JSF assets.



VIII. REAL PROPERTY

Real Property consists of land, buildings, structures and linear structures. Real property asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the APSR by the installation Real Property Office (RPO) as well as other applicable organizations.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the real property process are not sufficiently assessed and documented. The DAF GF's PCM lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of third parties, as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls.

(b) Insufficient controls over financial reporting of real property

Sufficient controls have not been fully designed and/or implemented to reconcile real property balances and activity in the APSR to the financial statements. Additionally, the DAF GF has not fully assessed the posting logic for various financial and non-financial data elements utilized by NexGen-IT in the generation of financial amounts.

(c) Insufficient review and monitoring of APSR data

Assets have various characteristics recorded in the APSR based upon the nature and category of the asset. Although some data elements are non-financial in nature, much of this information has a direct or indirect impact on the DAF GF's financial statements and the entity's ability to implement SFFAS 50. SFFAS 50 allows for the Plant Replacement Value (PRV) to be used as a starting point for establishing replacement cost, which is one of the established alternative valuation methods under the standard. The DAF GF has not fully implemented sufficient review and monitoring controls over the completeness and accuracy of key data fields contained within its APSR that impact PRV (e.g., category code, unit of measure), depreciation calculations (e.g., placed in service dates) or the determination of rights and obligations. The DAF GF is currently developing a process for identification, communication and timely resolution of any anomalies identified as part of this review; however, this process is not yet complete.



(d) Further procedures are needed to identify the complete population of real property assets

Buildings and Structures

Enhanced controls are needed to validate that the APSR contain a complete and accurate listing of all buildings and structures. During FY24, the DAF GF made progress with enhancing its controls over existence and completeness, including the timely update of the APSR; however, this process is under further validation.

Linear Structures and Land

While the DAF GF has continued to develop its planned corrective actions, the entity has not completed its assessment as to whether its APSR contains a complete and accurate population of linear structures. Additionally, under SFFAS 50, entities have an option to exclude land and land rights from the general property, plant and equipment balance and instead disclose specific acreage information. The DAF GF has not completed its acreage reconciliation efforts as controls have not yet been fully finalized, communicated or implemented across all installations.

(e) Insufficient procedures in place to monitor, value and report real property CIP

The two primary construction agents (CA) used by the DAF GF to manage military construction (MILCON) of real property assets are U.S. Army Corps of Engineers (USACE) and the Naval Facilities Engineering Systems Command (NAVFAC). During the construction phase of the project, the CAs track and report incurred construction costs to the DAF GF. The DAF GF has not developed sufficient controls to reconcile its data with that provided by the CAs. The DAF GF also has not evaluated the completeness and accuracy of CIP categories other than MILCON.

The lack of sufficient controls over CIP prevents full implementation of SFFAS 6 which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50 retrospectively.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Identify the significant financial-related risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise the Real Property cycle.
 - Document the process flow of transactions that generate those financial risks and the process owners responsible for assessing the risks.
 - Identify and document the corresponding key controls that address those financial risks to accurately account and report the financial statement line item.



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- Enhance integration between SAF/FMFA and the RP functional community in the assessment of current posting logic gaps.
- Assess if additional updates to policy or guidance are needed to clarify the respective roles and responsibilities of all applicable civil engineering (CE) parties (i.e., RPO, Engineering Flight, Operations Flight, Base Civil Engineer) and other parties (e.g., USACE) for the timely and accurate identification, communication and subsequent reporting of RP asset acquisitions and dispositions.
- As the accurate computation of PRV is dependent on APSR data, the DAF GF should monitor the completeness and accuracy of Real Property asset data and key inputs within the APSR.
- Continue to develop a rollforward/reconciliation process and related controls to monitor asset balances and activity period-over-period to:
 - Validate whether assets reported in subledger systems agree to the amounts reported in the financial statements,
 - Identify anomalous activity and balances, and
 - Support other financial reporting objectives.
- Develop procedures and internal controls at the installation level to effectively establish and subsequently monitor the use of various technology and data sources to aid in the identification and reconciliation of underground linear structure assets.
- Ensure the appropriate tools and models are developed to assist in the accurate measurement of land acreage. Consider the impacts, if any, presented by SFFAS 59, *Accounting and Reporting of Government Land*, that relate to the accounting treatment of land.
- Reconcile real property construction activity reported by constructions agents to the DAF GF expenditure data.
- Evaluate current processes to determine appropriate actions needed for accumulating historical cost in accordance with SFFAS 6.



Significant Deficiencies

IX. ENVIRONMENTAL AND DISPOSAL LIABILITIES

(a) Continued refinement over documentation of accounting policies, procedures and controls is needed

The complete end-to-end processes, procedures, and key controls for portions of the environmental and disposal liabilities (E&DL) process are not accurately and/or fully documented. For example, the DAF GF has not designed and implemented sufficient controls for the review of established estimation methodologies, inputs including those from third parties, and assumptions that are used in the determination of a portion of the liability.

(b) Insufficient procedures in place to record all E&DL

The DAF GF estimates E&DL related to the restoration and other environmental clean-up efforts of real property assets. Restoration Account (ERA) Liabilities represent the future costs associated with identifying, investigating, remediating, and monitoring environmental contaminations within the United States, including program management costs. Other Environmental Liabilities (OEL) is comprised of: Environmental Corrective Action (ECA), Environmental Closure Requirements (ECR) and Asbestos. Restoration and OEL estimates are triggered by two different activities: asset-driven or event-driven. ECR and Asbestos fall under asset-driven liabilities which are reported under OEL within the financial statements. Asset-driven liabilities are based on the characteristics of a particular real property asset and, therefore, are heavily dependent on information from the real property APSR to determine the completeness of the population for which a liability needs to be determined. As discussed in the real property material weakness above, the DAF GF's APSR may not capture all real property assets. For event-driven liabilities, the DAF currently lacks a sufficient control process to support a complete population of Restoration sites that require an environmental liability. As a result, the associated E&DL may not consider a complete population of the associated liability.

(c) Lack of sufficient processes to compare actual contract costs to recorded estimates

The DAF GF often utilizes the Remedial Action Cost Engineering and Requirements (RACER) software to forecast costs for contaminated sites or assets including Base Realignment and Closure, Restoration and OEL that require investigation, disposal and/or clean-up. RACER is a third-party software operated and maintained by AECOM Technical Services, Inc. (AECOM) through a contract with USACE. AECOM is tasked with maintaining and updating the multiple different databases that RACER stores including, but not limited to, technology/assembly costs, per diem rates, area cost factors, and inflation rates.



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The RACER Verification, Validation, and Accreditation (VV&A) process is performed on a periodic basis to review the estimation model's functionality, logic, and suitability that impact the estimation of clean-up activities for various environmental sites. This process involves the review and input of the various Department of Defense (DoD) users in addition to the DAF GF. While progress continues to be made to formalize certain policies and procedures around the verification process, the DAF GF has not sufficiently designed and/or implemented controls to fully assess the validation portion of the VV&A process over the effectiveness and suitability of RACER when compared to actual clean-up costs. The DAF also has not sufficiently performed a service organization risk assessment or implemented the appropriate monitoring and oversight controls, which may impact the completeness and accuracy of RACER data and assumptions used to estimate clean-up activities within DAF GF's E&DL balance.

The DAF GF has not completed the development and implementation of a process to compare and assess actual costs to recorded estimates for reasonableness for OEL. While the DAF GF demonstrated progress by developing plans for a retrospective review, further analysis and evaluation of key factors are necessary given the complexity and unique nature of the applicable populations. These factors include, but are not limited to, the various types of assets and related technologies, the variance threshold, and the applicable sample sizes and precision used to evaluate the actual to estimates review.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Insufficient procedures to record all E&DL:
 - Develop and refine processes and controls to accumulate sufficient and reliable internal data to support the identification of all applicable sites and development of the related Restoration E&DL estimate, where applicable.
 - Monitor the remedial actions taken to address the completeness and accuracy of real property APSR data.
 - Establish the appropriate controls to prevent or detect and correctly identify risks of misstatement across all components of ECR and Asbestos on a timely basis.
 - Design and implement appropriate controls to review, validate and evaluate the applicability of third-party data used in the DAF's calculation of the Asbestos liability
- Continue to further evaluate and analyze contract cost information to effectively develop and implement a complete process to compare actual contract costs to E&DL estimates as computed by RACER or any other cost estimation software.



- Continue to enhance the VV&A process to ensure validation activities are performed to verify that RACER produced estimates are accurate and suitable for continued use in estimating the environmental liability. The DAF should design sufficient controls over the service organization and IT environment risks when using RACER, which could include the requesting an execution of a SOC report and DAF implementation of CUECs.

X. REIMBURSABLE PROGRAMS

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the reimbursable grantor and acceptor processes are not sufficiently assessed and documented. The DAF GF's PCMs or other controls documentation lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of service providers (i.e., DFAS), as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. Control documentation also does not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT).

(b) Insufficient controls over financial reporting of reimbursable agreements

The DAF GF must match current-year reimbursable authority received from customer orders to the corresponding obligations incurred for that order. If these amounts are not in balance, funds may need to be returned to the customer or de-obligated prior to the end of the fiscal year. The DAF GF performs balancing at various times during the year and forces reconciling balances using journal vouchers. There is a lack of supporting documentation and unique identifiers for these balancing transactions.

The DAF GF also does not have sufficient procedures in place to ensure that transactions associated with intra-DAF GF reimbursable agreements are appropriately eliminated from the financial statements.

(c) Lack of sufficient reviews over reimbursable activity

We identified several instances that indicate a lack of sufficient review, including:

- Lack of organization-wide controls to monitor and review reimbursable transactions occurring at the base level, including the consistency in execution of those processes.



- Reimbursable codes in the Job Order Cost Accounting System II (JOCAS) are not regularly reviewed against updated DoD guidance. This could lead to the DAF GF either over- or under-charging a customer depending on whether the costs are reimbursable.
- Lack of timely identification and action to resolve stale open reimbursable orders.
- Insufficient documentation supporting the review of receipt and acceptance for goods and services when performed in conjunction with a reimbursable order to ensure customer billings are correct.

Recommendations:

EY recommends that the DAF GF consider the following corrective actions related to the conditions described above:

- Lack of sufficient documentation of accounting policies, procedures and controls:
 - Identify the risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise disbursements, billings and collections within the RBAE Grantor and Acceptor cycles. Based on the risks, the DAF GF should perform the following:
 - Document the process flow of transactions, including the IT systems, that generate those risks and the process owners responsible for assessing the risks.
 - Identify and document the corresponding key controls that address those risks to adequately account and report the financial statement line item, including the cross-cutting controls that are shared with other areas (e.g., FBWT).
 - Develop an adequate understanding of the processes and relevant controls performed and implemented by service organizations and the scope of any related SOC reports. Implement appropriate monitoring and oversight controls, including necessary CUECs.
- Insufficient controls over financial reporting of reimbursable agreements:
 - Evaluate the causes for why unfilled customer orders and obligations created to fulfill those orders are not in balance. Depending on the causes identified, policies and procedures may need to be updated.
 - Minimize time lags between the disbursement of funding to meet the contractual obligations and the billing/collection from the customer.
 - Return funding to the customer promptly if the DAF GF knows the funding will not be fully utilized.
 - Properly record reimbursable obligations initially as reimbursable budget authority rather than direct budget authority, in order to prevent reclassifying at a later date.
 - Develop policies and procedures to eliminate intra-fund transactions as appropriate.
- Lack of sufficient reviews over reimbursable activity:
 - Develop management review controls that adequately monitor activity occurring at the base level to evidence controls are consistently executed across the DAF GF as part of both RBAE processes. Identify, design, and document any additional controls that



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- should be in place for all processes required to comply with relevant accounting standards including financial statement line items and notes to the financial statements.
- Enhance the current process to determine stale balances are being monitored and ensure customers are billed and collected from in a timely manner.
 - Develop or update policies to sufficiently support whether goods provided, or services performed, satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.



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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and our report dated November 8, 2024 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF GF’s financial statements as of and for the year ended September 30, 2024 is not currently determinable by the DAF GF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the DAF GF’s compliance with certain provisions of laws, regulations, contracts and grant agreements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, as well as instances of noncompliance in which the DAF GF’s financial management systems did not substantially comply with the Section 803(a) requirements of FFMIA and which are described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.



Our Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 8, 2024 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

FFMIA

Under FFMIA, we are required to report whether the DAF GF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF GF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2024 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or Appendix D to OMB Circular A-123 – *Management of Financial Management Systems – Risk and Compliance*.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF GF from being compliant with federal financial management system requirements and inhibit the DAF GF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2024 DAF GF Statement of Assurance and Note 1 to the financial statements, the DAF GF identified that the financial systems and financial portions of mixed systems do not allow the DAF GF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.



(c) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 2024 DAF GF Statement of Assurance, the DAF GF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF GF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF GF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF GF provided the FY 2024 Statement of Assurance and as reported in the Report of Independent Auditors on Internal Control over Financial Reporting certain aspects related to entity level controls have not been fully identified, implemented, or operating effectively. Based on the evidence received, EY assessed that the DAF GF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF GF has not fully evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 8, 2024. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 on our consideration of the DAF GF's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control.

Ernst & Young LLP

November 8, 2024



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

8 November 2024

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2024 General Fund financial statements and both acknowledges and concurs with your issuance of a disclaimer of opinion. We appreciate your insights and constructive feedback regarding the audit findings, which are included in your reports on *Internal Control Over Financial Reporting and Compliance and Other Matters*. We remain committed to improving our financial practices and business systems and will continue to leverage your recommendations and apply lessons learned to bolster our remediation strategy and enhance our internal control environment.

At the close of our seventh full financial statement audit cycle, we remain at the vanguard of audit remediation. Our teams' ability to identify internal and external deficiencies and implement corrective action plans—more than 100 for the fifth consecutive year—greatly contributes to our consistent placement atop the congressional *Report on the Rankings of the Auditability of the Financial Statements* among DoD agencies with a disclaimed audit opinion. Our commitment to provide leadership with real-time analytics via enhanced Integrated Master Schedules and automated workflows is delivering more accurate and timely progress updates to enable more rapid and informed decision-making. These efforts positioned the Department of the Air Force to achieve yet another major milestone in downgrading a high-impact material weakness in Fiscal Year 2024 that will significantly boost the auditability of our General Fund's balance sheet.

At the end of Fiscal Year 2023, your team identified three significant challenge areas that prevented our Military Equipment material weakness from downgrade. I am proud to report that our Department of the Air Force rose to the challenge and developed solutions to secure the downgrade: implemented a modification useful life policy and updated the Accountable Property System of Record, as well as completed the required accounting adjustments. The Department of the Air Force additionally enhanced construction-in-progress reviews and displayed effective internal controls to support accurate pod reporting. Combined with the full remediation of our Fund Balance with Treasury material weakness last year, our General Fund can boast a balance sheet that is now more than 75% auditable.



In addition, we are working to close the security gaps posed by our large population of systems, some of which were neither designed nor developed to meet underlying cyber and financial requirements. By implementing cybersecurity capabilities for our financial and financial feeder systems, we will enhance our cybersecurity risk posture while addressing Information Technology Notices of Findings and Recommendations.

We are coordinating with your team to best posture the United States Space Force as the audit continues to evolve. We are working hard to determine the ability to provide analysis and key supporting documents in a full substantive audit to support efforts to achieve an unmodified audit opinion.

We remain confident that the annual audit has and will continue to play an integral part in helping the Department of the Air Force improve our business systems and processes. We are eager to complete our audit objectives and milestones and to accelerate progress, where possible, for both the Department of the Air Force and the Department of Defense to achieve an unmodified (clean) audit opinion by the congressionally mandated target date of fiscal year 2028. Thank you for your patience, professionalism, and partnership through the audit cycles as we continue to collaborate on the audit journey.

Sincerely,

Carlos Rodgers, SES, DAF
(Acting) Assistant Secretary of the Air Force
(*Financial Management and Comptroller*)

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND (UNAUDITED)

The DAF WCF principal statements and related notes summarize financial information for the DAF WCF for the FY ended September 30, 2024 and are presented on a comparative basis with information previously reported for the FY ended September 30, 2023. 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 Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF WCF's principal statements:

CONSOLIDATED BALANCE SHEETS

The Consolidated Balance Sheets, as of September 30, 2024 and 2023, represent those resources owned or managed by the DAF WCF, which are available to provide future economic benefits (assets), amounts owed by the DAF WCF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF WCF, comprising the difference (net position).

CONSOLIDATED STATEMENTS OF NET COST

The Consolidated Statements of Net Cost present the net cost of the DAF WCF's operations for the FYs ended September 30, 2024 and 2023. The DAF WCF's net cost of operations includes the gross costs incurred by the DAF WCF less any exchange revenue earned from DAF WCF activities.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated Statements of Changes in Net Position present the change in the DAF WCF's net position resulting from the net cost of DAF WCF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FYs ended September 30, 2024 and 2023.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF WCF during FYs 2024 and 2023, the status of these resources as of September 30, 2024 and 2023, and the net outlays of budgetary resources for the FYs ended September 30, 2024 and 2023.



Personnel from the 4th Space Operations Squadron pose outside of a C-17 Globemaster III at Joint Base Pearl Harbor Hickam, HI. The team arrived as part of a contingency operations exercise to test a piece of communications equipment known as the Mobile Constellation Control Station. —USAF photo by Technical Sgt. Tarelle Walker

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 CONSOLIDATED (UNAUDITED)	2023 CONSOLIDATED (UNAUDITED)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 2,266,488	\$ 1,088,630
Accounts Receivable, Net (Note 4)	893,233	835,659
Total Intragovernmental	\$ 3,159,721	\$ 1,924,289
Other than Intragovernmental		
Accounts Receivable, Net (Note 4)	\$ 3,212	\$ 2,989
Inventory and Related Property, Net (Note 5)	39,579,092	28,869,557
General Property, Plant, and Equipment, Net (Note 6)	1,077,636	1,006,669
Advances and Prepayments (Note 7)	555,724	428,837
Other Assets (Note 7)	190	188
Total Other than Intragovernmental	\$ 41,215,854	\$ 30,308,240
Total Assets	\$ 44,375,575	\$ 32,232,529
LIABILITIES		
Intragovernmental		
Accounts Payable	\$ 146,177	\$ 265,287
Other Liabilities (Note 10)	52,643	47,977
Total Intragovernmental	\$ 198,820	\$ 313,264
Other than Intragovernmental		
Accounts Payable	\$ 501,180	\$ 481,028
Federal Employee Salary, Leave, and Benefits Payable (Note 9)	282,049	245,695
Pensions, Other Post-Employment, and Veterans Benefits Payable (Note 9)	177,423	183,575
Advances from Others and Deferred Revenue (Note 10)	201,473	224,727
Other Liabilities (Note 10)	44,159	43,913
Total Other than Intragovernmental	\$ 1,206,284	\$ 1,178,938
Total Liabilities	\$ 1,405,104	\$ 1,492,202

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED BALANCE SHEETS CONTINUED

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 CONSOLIDATED (UNAUDITED)	2023 CONSOLIDATED (UNAUDITED)
NET POSITION		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 41,365	\$ 31,759
Total Unexpended Appropriations (Consolidated)	\$ 41,365	\$ 31,759
Cumulative Results of Operations - Funds Other than Dedicated Collections	\$ 42,929,106	\$ 30,708,568
Total Cumulative Results of Operations (Consolidated)	\$ 42,929,106	\$ 30,708,568
Total Net Position	\$ 42,970,471	\$ 30,740,327
Total Liabilities and Net Position	\$ 44,375,575	\$ 32,232,529

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS OF NET COST

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 CONSOLIDATED <i>(UNAUDITED)</i>	2023 CONSOLIDATED <i>(UNAUDITED)</i>
PROGRAM COSTS		
Operations, Readiness, & Support	\$ 17,626,206	\$ 13,985,329
Gross Costs	\$ 17,626,206	\$ 13,985,329
(Less: Earned Revenue)	(15,259,757)	(14,554,574)
Net Cost of Operations	\$ 2,366,449	\$ (569,245)

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 CONSOLIDATED (UNAUDITED)	2023 CONSOLIDATED (UNAUDITED)
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 31,759	\$ 42,694
Beginning Balances, as Adjusted	\$ 31,759	\$ 42,694
Appropriations Transferred In/Out	83,587	80,448
Appropriations Used	(73,981)	(91,383)
Net Change in Unexpended Appropriations	\$ 9,606	\$ (10,935)
Total Unexpended Appropriations, Ending Balance	\$ 41,365	\$ 31,759
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 30,708,568	\$ 29,752,143
Prior Period Adjustments		
Changes in accounting principles (+/-)	7,326,521	0
Beginning Balances, as Adjusted	\$ 38,035,089	\$ 29,752,143
Budgetary Financing Sources:		
Other Financing Sources	\$ 6,819,019	\$ 0
Appropriations Used	73,981	91,383
Non-Exchange Revenue	(69)	43
Transfers In/Out without Reimbursement	(16,008)	2,302
Imputed Financing	383,483	293,484
Other	60	(32)
Total Budgetary Financing Sources	\$ 7,260,466	\$ 387,180
Net Cost of Operations (+/-)	2,366,449	(569,245)
Net Change in Cumulative Results of Operations	\$ 4,894,017	\$ 956,425
Cumulative Results of Operations, Ending	\$ 42,929,106	\$ 30,708,568
Net Position	\$ 42,970,471	\$ 30,740,327

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 CONSOLIDATED (UNAUDITED)	2023 CONSOLIDATED (UNAUDITED)
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 14)</i>	\$ 1,089,754	\$ 893,514
Appropriations (Discretionary and Mandatory)	83,587	80,448
Contract Authority (Discretionary and Mandatory)	10,883,033	10,878,263
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	8,470,655	7,993,438
Total Budgetary Resources	\$ 20,527,029	\$ 19,845,663
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	\$ 19,105,104	\$ 18,755,909
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,421,925	1,089,754
Unexpired Unobligated Balance, End of Year	\$ 1,421,925	\$ 1,089,754
Unobligated Balance, End of Year (Total)	\$ 1,421,925	\$ 1,089,754
Total Budgetary Resources	\$ 20,527,029	\$ 19,845,663
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ (1,094,271)	\$ 324,701
Agency Outlays, Net (Discretionary and Mandatory)	\$ (1,094,271)	\$ 324,701

The accompanying notes are an integral part of these statements.

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.

Click Each Note for Quick Access (Online Version Only)

<p>NOTE 1</p> <p><i>Summary of Significant Accounting Policies</i></p>	<p>NOTE 2</p> <p><i>Non-Entity Assets</i></p>	<p>NOTE 3</p> <p><i>Fund Balance with Treasury</i></p>	<p>NOTE 4</p> <p><i>Accounts Receivable, Net</i></p>
<p>NOTE 5</p> <p><i>Inventory and Related Property, Net</i></p>	<p>NOTE 6</p> <p><i>General Property, Plant, and Equipment, Net</i></p>	<p>NOTE 7</p> <p><i>Other Assets</i></p>	<p>NOTE 8</p> <p><i>Liabilities Not Covered by Budgetary Resources</i></p>
<p>NOTE 9</p> <p><i>Federal Employee and Veteran Benefits Payable</i></p>	<p>NOTE 10</p> <p><i>Other Liabilities</i></p>	<p>NOTE 11</p> <p><i>Commitments and Contingencies</i></p>	<p>NOTE 12</p> <p><i>Disclosures Related to the Statement of Net Cost</i></p>
<p>NOTE 13</p> <p><i>Disclosures Related to the Statement of Changes in Net Position</i></p>	<p>NOTE 14</p> <p><i>Disclosures Related to the Statement of Budgetary Resources</i></p>	<p>NOTE 15</p> <p><i>Disclosures Related to Incidental Custodial Collections</i></p>	<p>NOTE 16</p> <p><i>Reconciliation of Net Cost to Net Budgetary Outlays</i></p>
<p>NOTE 17</p> <p><i>Public-Private Partnerships</i></p>	<p>NOTE 18</p> <p><i>Disclosure Entities and Related Parties</i></p>	<p>NOTE 19</p> <p><i>Subsequent Events</i></p>	

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters and USAF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF under the guidance and direction of the Secretary of Defense. The USAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the USAF and the preparation of its forces for military operations. The USAF Field Organizations are comprised of the Major Commands, Direct Reporting Units, Field Operating Agencies, and their subordinate elements that carry out the mission of the USAF.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF WCF. As a result, it does not disclose information related to the DAF GF.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF WCF may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

B. MISSION OF THE REPORTING ENTITY

The DAF 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 DAF's mission is comprised of the USAF mission: *To fly, fight, win...airpower anytime, anywhere.*

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

The DAF WCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All the DAF WCF 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 DAF WCF is the Inventory Control Point. The Supply Division manages items that are generally related to weapon systems and ground support and include both depot level and non-depot level reparables.

Maintenance Division activities of CSAG are authorized to perform: 1) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment; 2) the manufacture of parts and assemblies required to support the foregoing; and 3) the furnishing of other authorized services or products for the DAF WCF and other DoD and non-DoD agencies. 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 consumable supply items related to maintenance, the Flying Hour Program, and installation functions. Most of these items are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

and equipment. The Medical-Dental Division procures and manages medical supply items and equipment necessary to maintain an effective USAF 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.

C. BASIS OF PRESENTATION

These comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF WCF operations, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The accompanying financial statements account for all resources for which the DAF WCF is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. To the extent possible, the financial statements have been prepared from the accounting records of the DAF WCF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

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

D. BASIS OF ACCOUNTING

The DAF WCF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF WCF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), non-financial feeder systems, and accruals made for major items such as flying hours revenue, payroll expenses, and Accounts Payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DAF WCF 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 DAF WCF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF WCF is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

to have an impact on the DAF WCF's financial statements; however, the DAF WCF is currently unable to determine the full impact these pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1. Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Issued on December 23, 2014. Effective Date: Reporting periods beginning after September 30, 2017.

SFFAS 47 requires Federal Government entities to analyze their relationships with related entities to determine which, if any, entities should be reported with the reporting entity on a consolidated basis, those that should be disclosed as inter-related with the reporting entity, and those that should be disclosed by the reporting entity as related parties. Currently, the DAF WCF's SFFAS 47 analysis is not complete. The consolidation decisions related to that analysis, when complete, could have a material impact on the DAF WCF's financial statements.

2. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Issued on January 27, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF WCF plans to utilize deemed cost to value beginning balances for Inventory and Related Property (I&RP), as permitted by SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to the I&RP line item.

3. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Issued on April 27, 2016. Effective Date: Reporting periods beginning after September 30, 2018.

The DAF WCF has begun to evaluate arrangements and transactions for Public-Private Partnerships criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49 but has not completed a full analysis of all arrangements as of September 30, 2024.

4. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and SFFAS 23, and Rescinding SFFAS 35*. Issued on August 4, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF WCF plans to utilize deemed cost to value beginning balances for General Property, Plant, and Equipment (PP&E), as permitted by SFFAS 50; however, systems required to account for historical cost for General PP&E in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment* are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to the General PP&E line item.

5. SFFAS 55, *Amending Inter-entity Cost Provisions*. Issued on May 31, 2018. Effective Date: Reporting periods beginning after September 30, 2018.

Pursuant to SFFAS 55, DoD FMR, Volume 4, Chapter 24, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the U.S. Treasury Judgment Fund settlements. This election is permitted under SFFAS 55; however, as a business-type activity, the DAF WCF is required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost, or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

6. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective date: Upon issuance.

7. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective date: Upon issuance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

8. Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2024.

9. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2024.

10. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.

11. Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.

This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. The DAF WCF is in the process of adopting this Staff Implementation Guidance as of September 30, 2024.

12. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.

The DAF WCF has not recorded all transactions consistent with GAAP because of limitations of certain systems and resource constraints. The DAF WCF continues to transition to systems that can produce GAAP-compliant financial statements. The transactions not recorded consistent with GAAP and are believed to be materially misstated in the financial statements include, but are not limited to, transactions that should have been recorded in prior years but were recorded in the current year.

E. ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. 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. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF WCF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF WCF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF WCF. Once SFFAS 55 is fully implemented, the DAF WCF will recognize the general nature of imputed costs only for business-type activities and other costs specifically required by OMB Circular A-136, including 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

and inactive employees to include unemployment and workers compensation under the *Federal Employees' Compensation Act* (FECA); and 3) losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF WCF's financial statements.

For additional information, refer to [Note 12, Disclosures Related to the Statement of Net Cost](#), and [Note 13, Disclosures Related to the Statement of Changes in Net Position](#).

F. NON-ENTITY ASSETS

The DAF WCF classified assets as either Entity or Non-Entity. Entity Assets are those that the DAF WCF has authority to use for its operations. Non-Entity Assets are those held by the DAF WCF but not available for use in its normal operations. Non-Entity Assets are offset by liabilities to third parties and have no impact on net position. The DAF WCF combines its Entity and Non-Entity Assets on the Balance Sheet and discloses its Non-Entity Assets in the notes. Beginning in the second quarter of FY 2024, the DAF WCF no longer records Non-Entity Assets. All Non-Entity Assets for the DAF WCF are recorded on the DAF GF Financial Statements.

For additional information, refer to [Note 2, Non-Entity Assets](#).

G. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury (FBwT) represents the aggregate amount of the DAF WCF available budget spending authority available to pay current liabilities and finance future authorized purchases.

The DAF WCF's monetary resources of collections and disbursements are maintained in Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments and the Department of State's financial service centers currently process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using the DAF WCF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF WCF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF WCF's target end state of executing payments and collections directly between the DAF WCF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF WCF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

FBwT is an asset of the DAF WCF and a liability of the U.S. Government GF. The amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent assets to the U.S. Government as a whole.

When the DAF WCF seeks to use FBwT to liquidate budgetary obligations, the Treasury will finance the disbursements in the same way it finances all other disbursements using some combination of receipts, other inflows, and borrowing from the public, in cases of a budget deficit.

In addition, the DAF WCF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account.

For additional information, refer to [Note 3, Fund Balance with Treasury](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. ACCOUNTS RECEIVABLE

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF WCF records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal doubtful accounts (estimated uncollectible amounts) are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF WCF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the business rules published in Appendix 5 of the TFM Volume 1, Part 2, Chapter 4700.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities*, the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables. For individual account analysis, account balances are individually analyzed to determine the loss allowance. For group analysis, receivables are separated into groups of homogeneous accounts with similar risk characteristics. To allow for both requirements, a group analysis is performed in determining the allowance percentages by aging categories applied to delinquent balances per the *Treasury Report on Receivables* or other sources of public receivable information. The allowance percentages by aging categories are based on three years of actual collection experience. In accordance with the DoD FMR Volume 4, Chapter 3, *Receivables*, a secondary analysis may be performed on individual receivable balances greater than \$100.0 thousand. The amounts determined to be uncollectible as the result of the analyses are recorded as an allowance.

For additional information, refer to [Note 4, Accounts Receivable, Net](#).

I. INVENTORIES AND RELATED PROPERTY

The DAF WCF 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 aircraft, missiles, engines, accessories, components, medical, dental, and support equipment. Items commonly used in, and available from, the commercial sector are not managed in the DAF WCF's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF WCF holds materiel based on military need and support for contingencies.

Inventory Held for Sale includes consumable spares and repair parts, as well as reparable items owned and managed by the DAF WCF. This inventory is retained to support military or national contingencies. The DAF WCF values its resale inventory using the Moving Average Cost (MAC) flow assumption.

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. As the DAF WCF often relies on weapon systems and machinery no longer in production, the DAF WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness to defend the nation. Inventory 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) depot maintenance work with associated costs incurred in the delivery of maintenance services.

Prior to FY 2024, the DAF WCF valued Inventory Held for Repair using the allowance method; however, the DAF WCF recently concluded that the use of the allowance method did not result in an adequate valuation for

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

reparable Inventory. The DAF WCF found the allowance method created issues with net valuation of carcasses, untimely recognition of actual repair expenses, and stagnant MAC values.

In FY 2024, the DAF WCF changed from accounting for Held for Repair items from the allowance method to the direct method. This change in accounting principle complies with SFFAS 3, *Accounting for Inventory and Related Property*, and was implemented in conjunction with Interpretation of Federal Financial Accounting Standards 7, *Items Held for Remanufacture*. This method also covers the complete business cycle, from the exchange sale, including valuation of the carcass while it is being held for repair/rebuild/remanufacture, through returning the assets to serviceable condition and capitalizing the total repair costs into Inventory Held for Sale.

Operating Materials and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems. OM&S Held for Use is valued using MAC. The DAF WCF uses the consumption method of accounting for OM&S.

The DAF WCF recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero.

The DAF WCF, when applicable, will adopt SFFAS 48 permitting alternative methods in establishing opening balances.

For additional information, refer to [Note 5, Inventory and Related Property, Net](#).

J. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF WCF capitalizes all General PP&E used in the performance of its mission with a useful life of two or more years and with an acquisition cost that equals or exceeds capitalization thresholds. When applicable, the DAF WCF will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF WCF's capitalization threshold for General PP&E is \$250.0 thousand. This capitalization threshold applies 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 threshold levels (\$100.0 thousand for General PP&E). The DAF WCF depreciates all General PP&E on a straight-line basis.

For additional information, refer to [Note 6, General Property, Plant, and Equipment, Net](#).

K. OTHER ASSETS

The DAF WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF WCF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. 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 payment 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.

The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or stage of completion. Contract financing payments should not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, refer to [Note 7, Other Assets](#).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. ACCOUNTS PAYABLE

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF WCF.

M. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events; however, no liability can be paid by the DAF WCF without proper budget authority. Liabilities Covered by Budgetary Resources are liabilities for which funding will otherwise be available to pay amounts when due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to [Note 8, Liabilities Not Covered by Budgetary Resources](#), and [Note 9, Federal Employee and Veteran Benefits Payable](#).

N. OTHER LIABILITIES

Other liabilities may be Intragovernmental or Other than Intragovernmental. Such liabilities include FECA Reimbursement to the Department of Labor, Custodial Liabilities, Employer Contribution and Payroll Taxes Payable, Accrued Funded Payroll and Benefits, Advances from Others, Accrued Unfunded Annual Leave, Contract Holdbacks, and Other Liabilities with Related Budgetary Obligations.

For additional information, refer to [Note 10, Other Liabilities](#).

O. COMMITMENTS AND CONTINGENCIES

The DAF WCF recognizes contingent liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

For additional information, refer to [Note 11, Commitments and Contingencies](#).

P. FEDERAL EMPLOYEE AND VETERAN BENEFITS

As an employer entity, the DAF WCF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other post-employment benefit plans, including health and life insurance plans. However, as the administering entity, Office of Personnel Management is responsible for executing the benefit plans including accounting for plan assets, liabilities, and associated gains and losses. Accordingly, the DAF WCF does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

For additional information, refer to [Note 9, Federal Employee and Veteran Benefits Payable](#), and [Note 12, General Disclosures Related to the Statement of Net Cost](#).

Q. REVENUES AND OTHER FINANCING SOURCES

The DAF WCF's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the Treasury will make disbursements to liquidate the budgetary obligations and finance those

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The DAF WCF conducts business-like activities and receives funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. This 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 execute its missions or to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The primary sources of revenue recorded within the DAF WCF result from the following activities: 1) the sale of repair services such as (a) the repair of aircraft, missiles, engines, accessories, components, and equipment, and (b) the remanufacture of parts and assemblies required to support the foregoing; and 2) inventory issued to the Flying Hour Program. Instead of recognizing revenue based on the sale price of a spare part, revenue is recognized on a rate charged for a flying hour; and 3) the sale of reparable (including both depot level and non-depot level reparables) and consumable items that are generally related to medical supplies, medical equipment, weapon systems, and ground support.

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply and SMAG-R Divisions recognize revenue based on flying hours executed and the sale of inventory items. Full-cost pricing is the DAF WCF's standard policy for services provided as required by OMB Circular A-25, *User Charges*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF WCF recognizes non-exchange 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 DAF WCF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in [Note 16, Reconciliation of Net Cost to Net Budgetary Outlays](#). 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.

R. RECOGNITION OF EXPENSES

The DAF WCF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, Accounts Payable, and unbilled revenue. Some accounts such as civilian pay and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

The DoD has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method. The DAF WCF uses the consumption method to recognize expenses for OM&S. OM&S are expensed when consumed.

S. BUDGETARY RESOURCES

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. The following budgetary terms are commonly used:

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

- » An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- » Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- » An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- » Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.
- » Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.
- » Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

T. USE OF ESTIMATES

The DAF WCF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts.

Actual results could differ materially from the estimated amounts. Significant estimates include such items as percentage of completion revenue recognition for maintenance services, flying hour revenue, and actuarial liabilities related to workers' compensation. CSAG Maintenance recognizes revenue using the percentage of completion method. Estimated total costs are not evaluated and/or changed during the life of the project. The End Item Sales Price (EISP) is used as the total amount of cost that can be used in the revenue calculation. If actual total costs of the project ever reach the EISP, revenue stops being recorded; however, costs will continue to be recorded until the project is financially closed. Management monitors open projects where total incurred costs exceeded the total amount of recognized revenue.

NOTE 1 *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

U. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

Each year, the DAF WCF 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 this Act, the DAF WCF has the 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.

V. TAX EXEMPT STATUS

As an entity of the Federal Government, the DAF WCF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

W. STANDARDIZED BALANCE SHEET, THE STATEMENT OF CHANGES IN NET POSITION, AND RELATED FOOTNOTES – COMPARATIVE YEAR PRESENTATION

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are [Note 9, Federal Employee and Veteran Benefits Payable](#), [Note 10, Other Liabilities](#), and [Note 16, Reconciliation of Net Cost to Budgetary Net Outlays](#).

NOTE 2 *NON-ENTITY ASSETS*

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 <i>(UNAUDITED)</i>	2023 <i>(UNAUDITED)</i>
Other than Intragovernmental		
Accounts Receivable	\$ 0	\$ 58
Total Other than Intragovernmental	\$ 0	\$ 58
Total Non-Entity Assets	\$ 0	\$ 58
Total Entity Assets	\$ 44,375,575	\$ 32,232,471
Total Assets	\$ 44,375,575	\$ 32,232,529

Non-Entity Assets are assets for which the DAF WCF maintains stewardship accountability and reporting responsibility. Non-Entity Assets consist of assets belonging to other entities but are offset by the DAF WCF's liabilities to accurately reflect the DAF WCF's net position.

Beginning in the second quarter of FY 2024, the DAF WCF no longer records Non-Entity Assets. All Non-Entity Assets for the DAF WCF are recorded on the DAF GF Financial Statements. The FY 2023 amount for Other than Intragovernmental Accounts Receivable consists of amounts associated with interest, fines, and penalties. Generally, the DAF WCF cannot use the proceeds and must remit them to the Treasury unless permitted by law.

NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balance		
Available	\$ 1,421,925	\$ 1,089,754
Total Unobligated Balance	\$ 1,421,925	\$ 1,089,754
Obligated Balance Not Yet Disbursed	\$ 12,517,475	\$ 11,219,173
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders without Advance	\$ (5,958,667)	\$ (5,640,663)
Contract Authority	(4,725,035)	(4,612,902)
Receivables and Other	(989,210)	(966,732)
Total Non-Fund Balance with Treasury Budgetary Accounts	\$ (11,672,912)	\$ (11,220,297)
Total Fund Balance with Treasury	\$ 2,266,488	\$ 1,088,630

The Treasury records cash receipts and disbursements on the DAF WCF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF WCF's Fund Balance with Treasury (FBwT) consists of appropriation accounts and revolving funds.

The Status of FBwT reflects the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means.

The Total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

The entirety of the Unobligated Balance is Available and consists primarily of the unexpired, unobligated balance that has been apportioned and is available for new obligations.

The Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not yet paid.

Non-FBwT Budgetary Accounts include Unfilled Customer Orders without Advance, Contract Authority, and Receivables and Other. Non-FBwT Budgetary Accounts create budgetary authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. FBwT increases only after the customer payments for services or goods rendered have been collected.

The FBwT reported in the financial statements was adjusted to reflect the DAF WCF's balance as reported by the Treasury. The difference between FBwT in the DAF WCF's general ledger and FBwT reflected in the Treasury accounts is attributable to transactions that were not posted to the individual detailed accounts in the DAF WCF's general ledger as a result of timing differences in posting transactions to the DAF WCF's general ledger or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF WCF to reconcile their general ledger to the Treasury: \$90.1 million in undistributed disbursements, and (\$17.4) million in undistributed collections as of September 30, 2024. These net amounts represent the culmination of collections and disbursements throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF WCF's general ledger. As of September 30, 2024, the DAF WCF assessed disbursements in-transit to be immaterial.

NOTE 4 ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 896,055	\$ (2,822)	\$ 893,233
Other than Intragovernmental Receivables (From the Public)	3,323	(111)	3,212
Total Accounts Receivable	\$ 899,378	\$ (2,933)	\$ 896,445

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 844,698	\$ (9,039)	\$ 835,659
Other than Intragovernmental Receivables (From the Public)	3,202	(213)	2,989
Total Accounts Receivable	\$ 847,900	\$ (9,252)	\$ 838,648

Accounts Receivable represents the DAF WCF's claim for payment from federal and non-federal entities.

An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to [Note 1.H., Summary of Significant Accounting Policies – Accounts Receivable](#).

NOTE 5 INVENTORY AND RELATED PROPERTY, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Inventory, Net	\$ 39,449,211	\$ 28,739,644
Operating Materials and Supplies, Net	129,881	129,913
Total Inventory and Related Property, Net	\$ 39,579,092	\$ 28,869,557

Inventory, Net

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)			
	INVENTORY, GROSS	REVALUATION ALLOWANCE	INVENTORY, NET	VALUATION METHOD
Held for Sale	\$ 16,907,706	\$ (676)	\$ 16,907,030	MAC
Held for Repair	21,517,320	0	21,517,320	LAC, LRC
Work-In-Process	1,024,861	0	1,024,861	LRC
Excess, Obsolete, and Unserviceable	346,274	(346,274)	0	NRV
Total	\$ 39,796,161	\$ (346,950)	\$ 39,449,211	

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	INVENTORY, GROSS	REVALUATION ALLOWANCE	INVENTORY, NET	VALUATION METHOD
Held for Sale	\$ 15,696,909	\$ 0	\$ 15,696,909	MAC
Held for Repair	20,416,866	(7,384,506)	13,032,360	MAC, LRC
Work-In-Process	10,375	0	10,375	MAC
Excess, Obsolete, and Unserviceable	170,136	(170,136)	0	NRV
Total	\$ 36,294,286	\$ (7,554,642)	\$ 28,739,644	

LEGEND FOR VALUATION METHOD:

LAC = Latest Acquisition Cost LRC = Latest Repair Cost MAC = Moving Average Cost NRV = Net Realizable Value

GENERAL COMPOSITION OF INVENTORY

Inventory includes weapon system consumable and repairable 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, to be consumed in the production of goods for sale, or in the provision of services for a fee.

RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF INVENTORY

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel (WRM).

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense guidance and Joint Staff scenarios for committed forces.

NOTE 5 INVENTORY AND RELATED PROPERTY, NET

The WRM is only to be available for transfer without reimbursement when its issuance has been approved to satisfy requirements of a mobilization of U.S. Armed Forces; however, if authorized, WRM may be sold.

DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH INVENTORY IS ASSIGNED

The DAF WCF assigns inventory items to a category based on asset type and condition.

Held for Sale includes all materiel available for issuance.

Held for Repair represents unserviceable (but reparable) items that are more economical to repair than to procure. Held for Repair items are recorded utilizing the direct method. Under the direct method, Held for Repair items (carcasses) are valued at Latest Acquisition Cost (LAC) less the estimated Latest Repair Cost (LRC).

Work-in-Process is the term used to describe products that are being repaired, but are not yet complete, and consists of the costs of direct materials, direct labor, and applied indirect costs pertaining to the item.

Excess, Obsolete, and Unserviceable includes inventory that is no longer required due to changes in technology, laws, customs, or operations, and damaged inventory that is more economical to dispose of than to repair.

CHANGE IN ACCOUNTING PRINCIPLE

Prior to FY 2024, the DAF WCF recorded Held for Repair items using the allowance method. Under the allowance method, Inventory Held for Repair was valued at the same value as a serviceable item (Held for Sale). However, an allowance for repairs contra-asset account (i.e., repair allowance) was established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs was recognized as current period operating expenses at the time of the exchange sale. When the repair was complete the estimated repair cost and the allowance was reversed, and the actual repair expense was recorded.

Management concluded that the use of the allowance method did not result in an adequate valuation for Held for Repair Inventory and changed to an alternate method still in compliance with Statements of Federal Financial Accounting Standards (SFFAS). It was determined that the allowance method created issues with net valuation of carcasses, untimely recognition of actual repair expenses, and inaccurate asset valuation. With repair costs expensed and not capitalized into inventory, Moving Average Cost (MAC) values only changed with new procurements. As a result, some MAC values for Held for Sale inventory remained at the acquisition cost of the original part that may have been procured several years ago. Moreover, since the MAC values are based on acquisition costs from many years prior, there were instances, especially on reparable items that can no longer be procured in the open market, where current "repair" costs exceeded the original acquisition costs, causing a negative net value recorded for those specific inventory items.

In FY 2024, the DAF WCF changed from accounting for Held for Repair items from the allowance method to the direct method. This change in accounting principle complies with SFFAS 3, *Accounting for Inventory and Related Property*, and was implemented in conjunction with Interpretation of Federal Financial Accounting Standards 7, *Items Held for Remanufacture*. When the actual repair is complete, the cost of repair is capitalized in the inventory account and the MAC, for the now Held for Sale (serviceable) item, is recalculated.

IMPACT OF THE CHANGE IN ACCOUNTING PRINCIPLE

Adjustments totaling \$7.3 billion resulted from the implementation of the accounting change to the direct method. The adjustments impacted the Inventory Held for Sale, Inventory Held for Repair, and the Inventory Allowance account.

Inventory Held for Sale: Under the allowance method, the MAC values for serviceable inventory remained stagnant, usually because the acquisition costs of the original part may have been procured several years ago. The DAF WCF revalued all MAC values for Inventory Held for Sale to equal the LAC. This resulted in a \$2.3 billion increase.

NOTE 5 INVENTORY AND RELATED PROPERTY, NET

Inventory Held for Repair: Under the allowance method, Inventory Held for Repair was valued at the same value as a serviceable item (Held for Sale). With the change in accounting method to the direct method, Inventory Held for Repair is now valued at the LAC less the estimated LRC. This resulted in a \$2.3 billion decrease.

Inventory Allowance Account: Under the direct method, the use of an allowance account is no longer required, and as a result, the account was eliminated and the balance written off. This resulted in a \$7.3 billion increase.

The resulting adjustments were made to the beginning balance of Cumulative Results of Operations in the Statement of Changes in Net Position in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*.

EXCESS, OBSOLETE, AND UNSERVICEABLE INVENTORY

The Excess, Obsolete, and Unserviceable (EOU) Inventory, reported on the Inventory, Net table, represents the amount of EOU inventory that has been written off, but still in DAF WCF possession. Prior to FY 2024, the DAF WCF only declared items with exceptional conditions as EOU. Beginning in FY 2024, management determined that items could be included as Excess if the weapon system was retired or obsolete. However, management approval was required prior to disposition of the asset. This resulted in an increase in the EOU written off, but still in DAF WCF possession.

Operating Materials and Supplies, Net

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)			
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET	VALUATION METHOD
Held for Use	\$ 129,881	\$ 0	\$ 129,881	MAC
Total	\$ 129,881	\$ 0	\$ 129,881	

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET	VALUATION METHOD
Held for Use	\$ 129,913	\$ 0	\$ 129,913	MAC
Total	\$ 129,913	\$ 0	\$ 129,913	

LEGEND FOR VALUATION METHOD:

MAC = Moving Average Cost

GENERAL COMPOSITION OF OPERATING MATERIALS & SUPPLIES

The DAF WCF assigns all Operating Materials and Supplies (OM&S) to the Held for Use category and includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems.

RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF OM&S

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

NOTE 6 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Software	S/L	2-5, or 10*	\$ 1,001,476	\$ (994,803)	\$ 6,673
Software in Development	N/A	N/A	81,314	N/A	81,314
General Equipment	S/L	10	3,290,410	(2,556,927)	733,483
Construction-in-Progress	N/A	N/A	256,166	N/A	256,166
Total General Property, Plant, and Equipment, Net			\$ 4,629,366	\$ (3,551,730)	\$ 1,077,636

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Software	S/L	2-5, or 10*	\$ 1,000,689	\$ (986,400)	\$ 14,289
Software in Development	N/A	N/A	37,485	N/A	37,485
General Equipment	S/L	10	3,191,584	(2,541,566)	650,018
Construction-in-Progress	N/A	N/A	304,877	N/A	304,877
Total General Property, Plant, and Equipment, Net			\$ 4,534,635	\$ (3,527,966)	\$ 1,006,669

LEGEND FOR DEPRECIATION/AMORTIZATION METHOD & SERVICE LIFE:

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

* The useful life will be determined during the planning phase of the asset's development based on the length of time it is expected to have economic benefit or service potential to the DoD Component.

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
General Property, Plant, and Equipment, Net Beginning of Year	\$ 1,006,669	\$ 957,973
Capitalized Acquisitions	239,992	191,251
Dispositions, Net	0	59
Depreciation Expense	(149,332)	(142,614)
Other (+/-)	(19,693)	0
General Property, Plant, and Equipment, Net End of Year	\$ 1,077,636	\$ 1,006,669

NOTE 6 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The DAF WCF does not have any restrictions on the use or convertibility of General Property, Plant, and Equipment, nor does the DAF WCF have a material impairment that requires a disclosure in accordance with Statement of Federal Financial Accounting Standards 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. Refer to [Note 1.J., Summary of Significant Accounting Policies - General Property, Plant, and Equipment](#), for the capitalization threshold.

NOTE 7 OTHER ASSETS

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 <i>(UNAUDITED)</i>	2023 <i>(UNAUDITED)</i>
Other Than Intragovernmental Other Assets		
Outstanding Contract Financing Payments	\$ 555,465	\$ 428,576
Advances and Prepayments	259	261
Other Assets	190	188
Subtotal	\$ 555,914	\$ 429,025
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totalled and presented on the Balance Sheet as "Advances and Prepayments"	(555,724)	(428,837)
Total Other Assets	\$ 190	\$ 188

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, are the DAF WCF cash disbursements to a contractor under the contract prior to the DAF WCF acceptance of goods and services.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as OCFP.

Other Assets 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 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 <i>(AMOUNTS IN THOUSANDS)</i>	2024 <i>(UNAUDITED)</i>	2023 <i>(UNAUDITED)</i>
Intragovernmental Liabilities		
Federal Employees' Compensation Act	\$ 35,931	\$ 34,688
Total Intragovernmental Liabilities	\$ 35,931	\$ 34,688
Other than Intragovernmental Liabilities		
Federal Employee and Veteran Benefits Payable	\$ 177,423	\$ 183,575
Total Other than Intragovernmental Liabilities	\$ 177,423	\$ 183,575
Total Liabilities Not Covered by Budgetary Resources	\$ 213,354	\$ 218,263
Total Liabilities Covered by Budgetary Resources	\$ 1,191,750	\$ 1,273,939
Total Liabilities	\$ 1,405,104	\$ 1,492,202

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, the Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

The \$35.9 million in Other Intragovernmental Liabilities is comprised of the portion of the total DAF *Federal Employees' Compensation Act* (FECA) liability allocated to the DAF WCF for known claims.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. 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. For additional information and disclosures, refer to [Note 9, Federal Employee and Veteran Benefits Payable](#).

NOTE 9 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	\$ 177,423	\$ 0	\$ 177,423
Accrued Funded Payroll and Leave	282,049	(282,049)	0
Total Other Benefits	\$ 459,472	\$ (282,049)	\$ 177,423
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 459,472	\$ (282,049)	\$ 177,423
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	\$ 52,643	\$ (16,712)	\$ 35,931
Total Federal Employee and Veteran Benefits Payable	\$ 512,115	\$ (298,761)	\$ 213,354

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	\$ 183,575	\$ 0	\$ 183,575
Accrued Funded Payroll and Leave	245,695	(245,695)	0
Total Other Benefits	\$ 429,270	\$ (245,695)	\$ 183,575
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 429,270	\$ (245,695)	\$ 183,575
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	\$ 47,919	\$ (13,231)	\$ 34,688
Total Federal Employee and Veteran Benefits Payable	\$ 477,189	\$ (258,926)	\$ 218,263

OTHER BENEFITS

The DAF WCF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). The FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death.

Accrued Funded Payroll and Leave includes life and other insurance programs and accrued annual leave. The DAF WCF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM). The DAF WCF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer contributions are submitted to OPM. OPM administers insurance benefit programs available for coverage to the DAF WCF's eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

NOTE 9 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

The portion of the total DAF civilian accrued leave liability allocated to the DAF WCF includes amounts for accrued annual leave, restored annual leave, credit hours, compensatory hours, and frozen annual leave.

For a description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet, refer to [Note 10, Other Liabilities](#).

ACTUARIAL COST METHODS USED AND ASSUMPTIONS

The DAF WCF’s actuarial liability for workers’ compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each FY. The estimate for future workers’ compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred, but not reported claims. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

The DOL calculates the future workers’ compensation liability using wage inflation factors [e.g., Cost of Living Adjustment (COLA)] and medical inflation factors [e.g., Consumer Price Index Medical (CPI-M)], which were applied to the calculation of projected future benefits. The actual rates for these factors for the Charge-Back Year (CBY) 2024 were also used to adjust the methodology’s historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury’s Yield Curve for the U.S. Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2024. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES	
	For Wage Benefits: 2.6% in Year 1 and Years thereafter
	For Medical Benefits: 2.4% in Year 1 and Years thereafter

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2024	N/A	N/A
2025	4.3%	2.6%
2026	4.4%	2.9%
2027	4.2%	3.2%
2028	3.2%	3.4%
2029	2.6%	4.0%
2030	2.4%	3.9%
2031 and thereafter	2.3%	3.9%

The model’s resulting projections were analyzed by DOL 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 2024 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in FY

NOTE 9 *FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE*

2025 projection to the average pattern for the projections of the most recent three years.

Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet include FECA Reimbursement to the DOL and Intragovernmental Employer Contribution and Payroll Taxes Payable.

NOTE 10 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	\$ 0	\$ 0	\$ 0
Other Liabilities Reported on Note 9, Federal Employee and Veteran Benefits Payable	32,352	20,291	52,643
Total Intragovernmental Other Liabilities	\$ 32,352	\$ 20,291	\$ 52,643
Other than Intragovernmental Other Liabilities			
Contract Holdbacks	\$ 2	\$ 0	\$ 2
Other Liabilities with Related Budgetary Obligations	44,157	0	44,157
Total Other than Intragovernmental Other Liabilities	\$ 44,159	\$ 0	\$ 44,159
Total Other Liabilities	\$ 76,511	\$ 20,291	\$ 96,802

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	\$ 0	\$ 58	\$ 58
Other Liabilities Reported on Note 9, Federal Employee and Veteran Benefits Payable	27,895	20,024	47,919
Total Intragovernmental Other Liabilities	\$ 27,895	\$ 20,082	\$ 47,977
Other than Intragovernmental Other Liabilities			
Contract Holdbacks	\$ 0	\$ 0	\$ 0
Other Liabilities with Related Budgetary Obligations	43,913	0	43,913
Total Other than Intragovernmental Other Liabilities	\$ 43,913	\$ 0	\$ 43,913
Total Other Liabilities	\$ 71,808	\$ 20,082	\$ 91,890

NOTE 10 OTHER LIABILITIES

INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Liabilities for Non-Entity Assets represent offsetting liabilities for non-entity assets where the DAF WCF is acting on behalf of another federal entity. For example, non-entity receivables that, upon collection, will be remitted to Treasury. Beginning in the second quarter of FY 2024, the DAF WCF no longer records Non-Entity Assets. All Non-Entity Assets for the DAF WCF are recorded on the DAF GF Financial Statements. For additional information, refer to [Note 2, Non-Entity Assets](#).

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined Balance Sheet format (for additional information refer to [Note 1.W., Summary of Significant Accounting Policies - Standardized Balance Sheet, the Statement of Changes in Net Position, and Related Footnotes - Comparative Year Presentation](#)). Certain United States Standard General Ledger on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on [Note 9, Federal Employee and Veteran Benefits Payable](#), while others are reported on this [Note 10, Other Liabilities](#). The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on [Note 9, Federal Employee and Veteran Benefits Payable](#), are aggregated and also included as Other Liabilities Reported on [Note 9, Federal Employee and Veteran Benefits Payable](#). This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Liabilities reported on [Note 9, Federal Employee and Veteran Benefits Payable](#), include *Federal Employees' Compensation Act (FECA)* Reimbursement to the Department of Labor (DOL) and Intragovernmental Employer Contribution and Payroll Taxes Payable.

FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2024 and FY 2025 unbilled amounts, including both incurred and an estimated accrual.

Employer Contribution and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Contract Holdbacks are amounts withheld from contractors for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation.

Other Liabilities with Related Budgetary Obligations primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group Supply, which offset inventory owned and managed on behalf of foreign governments under a Cooperative Logistics Supply Support Agreement.

OTHER THAN INTRAGOVERNMENTAL ADVANCES FROM OTHERS AND DEFERRED REVENUE

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF WCF incurs or acquires on behalf of another organization.

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Intragovernmental	\$ 0	\$ 0
Other than Intragovernmental	\$ 201,473	\$ 224,727

NOTE 11 COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The DAF WCF is a party in various administrative proceedings and legal actions related to claims for equal employment opportunity matters and contractual bid protests. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The DAF WCF's Office of the General Counsel considers the possibility of the DAF WCF sustaining any losses on these legal actions to be remote.

OTHER CONTINGENCIES

The DAF WCF 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, the DAF WCF's automated system processes have limited capability to capture these potential liabilities. Therefore, the amounts reported may not fairly present the DAF WCF's commitments and contingencies.

It is the DAF WCF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF WCF executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF WCF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

NOTE 12 DISCLOSURES RELATED TO STATEMENT OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Operations, Readiness, & Support		
Gross Cost	\$ 17,626,206	\$ 13,985,329
Less: Earned Revenue	(15,259,757)	(14,554,574)
Total Net Cost	\$ 2,366,449	\$ (569,245)

CHANGE IN ACCOUNTING PRINCIPLE

Beginning in FY 2024, the DAF WCF adopted a change in accounting principle. Prior to the accounting change, the costs associated to an exchange sale included estimated and actual repair costs. Under the new method, the costs recorded on an exchange sale is the Moving Average Cost value associated to the serviceable asset provided to the customer in exchange for their unserviceable asset (carcass). This resulted in a \$3.8 billion increase in the Cost of Goods Sold.

DISCLOSURES

The three primary sources of revenue for the DAF WCF are from the sale of repair services, revenue from the Flying Hour Program, and the sale of reparable and consumable items. For the FY ended September 30, 2024, consolidated revenue for each revenue stream was \$6.3 billion, \$4.8 billion, and \$2.6 billion, respectively. The remaining \$1.6 billion was associated to gains.

For additional information refer to [Note 1.Q., Summary of Significant Accounting Policies - Revenue and Other Financing Sources](#).

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the DAF WCF supported by appropriations, contract authority, and reimbursable authority. 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 DAF WCF's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

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

Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

Many of the DAF WCF's systems do not track intragovernmental transactions by customer at the transaction level. Expenses were adjusted by reclassifying amounts between federal and non-federal expenses.

The DAF WCF records transactions on an accrual basis. The DAF WCF 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 Federal Generally Accepted Accounting Principles. These estimates reverse as actual costs or revenues are recorded.

NOTE 13 DISCLOSURES RELATED TO THE CHANGES IN NET POSITION

Effective in FY 2019, the Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions*, DoD Financial Management Regulation, *Volume 4*, Chapter 24, Section 2.4.5, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements. This election is permitted under SFFAS 55; however, as a business-type activity, the DAF WCF is also required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

There are no Appropriations Received recorded on the Statement of Changes in Net Position (SCNP). The \$83.6 million in appropriations recorded in the DAF WCF were transferred from the Defense WCF, and are included in the Appropriation line item on the Statement of Budgetary Resources; however, they are reported as Appropriations Transferred In/Out, and not as Appropriations Received on the SCNP.

Other Financing Sources on the SCNP is the credit value given to a customer for the return of a carcass on an exchange sale under the newly adopted accounting principle change associated with Inventory and Related Property.

Other on the SCNP is the contra-revenue offset associated with interest, fines, and penalties recorded as non-exchange revenue.

NOTE 14 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments as of September 30, 2024 to the budgetary resources available at the beginning of the year, and there are no legal arrangements affecting the use of unobligated balances.

AVAILABLE CONTRACT AUTHORITY, END OF PERIOD

Contract Authority is apportioned budget authority which can be legally obligated. Contract Authority, however, is not funded and is apportioned and allocated without a supporting Treasury cash balance. Consequently, Contract Authority must always be replaced or liquidated by subsequent or other budgetary resources with cash. The DAF WCF replaces contract authority with Spending Authority from Offsetting Collections.

Unless otherwise specified by statute, Contract Authority is apportioned to the DAF WCF for the current fiscal year of the Apportionment only as DoD's Contract Authority is indefinite and closes for new obligations if not used within the fiscal year it is apportioned. As such, there was no available contract authority remaining for the FY ended September 30, 2024.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)	2023 (UNAUDITED)
Intragovernmental		
Unpaid	\$ 2,571,481	\$ 3,552,110
Total Intragovernmental	\$ 2,571,481	\$ 3,552,110
Other than Intragovernmental		
Unpaid	\$ 8,816,572	\$ 6,440,837
Prepaid/Advanced	555,724	428,837
Total Other than Intragovernmental	\$ 9,372,296	\$ 6,869,674
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 11,943,777	\$ 10,421,784

NOTE 14 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from the FY 2023 SBR and the actual amounts from the “Analytical Perspectives – Federal Budget by Agency and Account” and “Appendix – Detailed Budget Estimates by Agency” sections of the FY 2025 President’s Budget. The Budget with the actual amounts of the current year (FY 2024) will be available at a later date at [The President’s Budget | The White House](#).

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
AS OF SEPTEMBER 30 (AMOUNTS IN MILLIONS)	2023 (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	\$ 19,846	\$ 18,756	\$ 0	\$ 325
Adjustments				
U.S. Transportation Command Statement of Budgetary Resources*	\$ 10,223	\$ 10,290	\$ 0	\$ (346)
Combined DAF WCF and U.S. Transportation Command	\$ 30,069	\$ 29,046	\$ 0	\$ (21)
Budget of the U.S. Government	\$ 30,069	\$ 29,046	\$ 0	\$ (21)

* United States Transportation Command’s (USTRANSCOM) financial results are not consolidated within the DAF WCF’s financial results; however, the DAF WCF is required to report USTRANSCOM in the DAF WCF’s Budget of the U.S. Government.

CONTRIBUTED CAPITAL

There was no infusion of capital received for the period ended September 30, 2024.

NOTE 15 *DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS*

The DAF WCF collected \$3.9 thousand of incidental custodial revenues through the FY ended September 30, 2024, which were generated primarily from non-entity interest, penalties, and administrative fees collected for out-of-service debts. These funds are not available for use by the DAF WCF. At the end of each FY, the accounts are closed and the balances rendered to the Treasury.

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2024 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	\$ (11,178,932)	\$ 13,545,381	\$ 2,366,449
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, plant, and equipment depreciation expense	\$ 0	\$ (149,332)	\$ (149,332)
Property, plant, and equipment disposals and revaluations	0	(19,693)	(19,693)
Cost of goods sold	(17,794)	(17,976,947)	(17,994,741)
Inventory disposals and revaluations	0	8,087,974	8,087,974
Applied overhead/cost capitalization offset			
Inventory and related property	\$ 0	\$ 7,893,258	\$ 7,893,258
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	\$ (119,497)	\$ 223	\$ (119,274)
Advances and Prepayments	0	126,887	126,887
Other Assets	0	1	1
(Increase)/Decrease in Liabilities:			
Accounts Payable	\$ 233,082	\$ (20,153)	\$ 212,929
Federal employee salary, leave, and benefits payable	0	(36,353)	(36,353)
Veterans, pensions, and post employment-related benefits	0	6,152	6,152
Advances from Others and Deferred Revenue	0	23,254	23,254
Other Liabilities	58,375	(246)	58,129
Financing Sources:			
Imputed Cost	\$ (383,483)	\$ 0	\$ (383,483)
Total Components of Net Cost Not Part of Net Budgetary Outlays	\$ (229,317)	\$ (2,064,975)	\$ (2,294,292)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of capital assets	\$ 0	\$ 239,992	\$ 239,992
Acquisition of inventory	4,080,877	2,090,946	6,171,823
Financing Sources:			
Transfers out (in) without reimbursements	\$ 16,008	\$ 0	\$ 16,008
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	\$ 4,096,885	\$ 2,330,938	\$ 6,427,823
MISCELLANEOUS RECONCILING ITEMS			
Custodial/Non-exchange revenue	\$ 0	\$ 69	\$ 69
Other Temporary Timing Differences	0	(7,326,521)	(7,326,521)
Total Other Reconciling Items	\$ 0	\$ (7,326,452)	\$ (7,326,452)
Total Net Outlays	\$ (7,311,364)	\$ 6,484,892	\$ (826,472)
Budgetary Agency Outlays, Net			\$ (1,094,271)
Unreconciled Difference			\$ 267,799

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	\$ (9,924,432)	\$ 9,355,187	\$ (569,245)
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Property, plant, and equipment depreciation expense	\$ 0	\$ (142,614)	\$ (142,614)
Property, plant, and equipment disposals and revaluations	0	0	0
Cost of goods sold	(16,649)	(14,192,543)	(14,209,192)
Inventory disposals and revaluations	0	2,112,896	2,112,896
Applied overhead/cost capitalization offset			
Inventory and related property	\$ 0	\$ 7,836,102	\$ 7,836,102
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	\$ (607,419)	\$ 240	\$ (607,179)
Advances and Prepayments	0	99,998	99,998
Other Assets	0	0	0
(Increase)/Decrease in Liabilities:			
Accounts Payable	\$ 562,678	\$ 132,083	\$ 694,761
Federal employee salary, leave, and benefits payable	0	1,043	1,043
Veterans, pensions, and post employment-related benefits	0	(3,275)	(3,275)
Advances from Others and Deferred Revenue	0	(52,885)	(52,885)
Other Liabilities	53,323	134	53,457
Financing Sources:			
Imputed Cost	\$ (293,484)	\$ 0	\$ (293,484)
Total Components of Net Cost Not Part of Net Budgetary Outlays	\$ (301,551)	\$ (4,208,821)	\$ (4,510,372)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Acquisition of capital assets	\$ 0	\$ 191,251	\$ 191,251
Acquisition of inventory	4,625,489	972,722	5,598,211
Financing Sources:			
Transfers out (in) without reimbursements	\$ (2,302)	\$ 0	\$ (2,302)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	\$ 4,623,187	\$ 1,163,973	\$ 5,787,160
MISCELLANEOUS RECONCILING ITEMS			
Custodial/Non-exchange revenue	\$ 0	\$ (44)	\$ (44)
Other Temporary Timing Differences	0	0	0
Total Other Reconciling Items	\$ 0	\$ (44)	\$ (44)
Total Net Outlays	\$ (5,602,796)	\$ 6,310,295	\$ 707,499
Budgetary Agency Outlays, Net			\$ 324,701
Unreconciled Difference			\$ 382,798

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the Government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The table above illustrates the reconciliation of key differences between Net Cost and Net Outlays. The unreconciled difference of \$267.8 million as of September 30, 2024 can be attributed to the legacy system environment in which the DAF WCF continues to operate in. 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 Generally Accepted Accounting Principles. The DAF WCF continues to implement process and system improvements to address these limitations.

PRESENTATIONAL CHANGES FOR FY 2023

The FY 2023 reconciliation conforms to presentational changes resulting from the DAF's continual effort to reconcile the Net Cost of Operations with Net Budgetary Outlays. The presentation is revised from the prior year's presentation in consideration of updated Treasury financial guidance to the extent possible.

Due to this change in presentation, the unreconciled difference was understated by \$383.6 million in FY 2023. This update revises the methodology, provides more detail of certain line items to align to changes to the Balance Sheet, and adds new reconciling items.

NOTE 17 PUBLIC-PRIVATE PARTNERSHIPS

Effective in FY 2019, the Statement of Federal Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements*, requires agencies to disclose certain information for Public-Private Partnerships (P3s). The DAF WCF continues to evaluate arrangements and transactions for P3 criteria to determine the complete population requiring disclosure under this significant standard, but has not completed a full analysis of all arrangements as of September 30, 2024.

NOTE 18 *DISCLOSURE ENTITIES AND RELATED PARTIES*

Effective in FY 2018, the Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, requires agencies to disclose certain information for disclosure entities and related parties. The DAF WCF is still in the early stages of implementing this significant standard and completing a full impact analysis. When the DAF WCF fully implements this new standard, the DAF WCF will provide a thorough disclosure for Disclosure Entities and Related Parties.

NOTE 19 *SUBSEQUENT EVENTS*

Subsequent events were evaluated from the Balance Sheet date through November 8, 2024, which is the date the financial statements were available to be issued. The DAF WCF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

FOR THE FISCAL YEARS ENDED 2024 AND 2023 <i>(AMOUNTS IN THOUSANDS) (UNAUDITED)</i>	OPERATIONS, READINESS & SUPPORT	2024 COMBINED	2023 COMBINED
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 14)</i>	\$ 1,089,754	\$ 1,089,754	\$ 893,514
Appropriations (Discretionary and Mandatory)	83,587	83,587	80,448
Contract Authority (Discretionary and Mandatory)	10,883,033	10,883,033	10,878,263
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	8,470,655	8,470,655	7,993,438
Total Budgetary Resources	\$ 20,527,029	\$ 20,527,029	\$ 19,845,663
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	\$ 19,105,104	\$ 19,105,104	\$ 18,755,909
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	\$ 1,421,925	\$ 1,421,925	\$ 1,089,754
Unexpired Unobligated Balance, End of Year	\$ 1,421,925	\$ 1,421,925	\$ 1,089,754
Unobligated Balance, End of Year (Total)	\$ 1,421,925	\$ 1,421,925	\$ 1,089,754
Total Budgetary Resources	\$ 20,527,029	\$ 20,527,029	\$ 19,845,663
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	\$ (1,094,271)	\$ (1,094,271)	\$ 324,701
Agency Outlays, Net (Discretionary and Mandatory)	\$ (1,094,271)	\$ (1,094,271)	\$ 324,701



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

November 8, 2024

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the
Air Force Working Capital Fund Financial Statements and Related Notes for
FY 2024 and FY 2023
(Project No. D2024-D000FT-0045.000, Report No. DODIG-2025-033)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2024, and 2023. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF Working Capital Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF Working Capital Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF Working Capital Fund FY 2024 and FY 2023 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*," discusses seven material weaknesses related to the DAF Working Capital Fund's internal controls over financial reporting.* Specifically, EY's report stated that the DAF Working Capital Fund did not:

- establish entity-level controls that provided a basis for effective financial reporting;
- integrate and reconcile feeder systems to the general ledger to ensure that it accurately recorded the entire population of financial transactions on its financial statements in a timely manner;
- ensure the effective design and operation of financial information systems;
- document inventory policies and procedures or fully implement internal controls to identify, track, and value inventory held by the DAF Working Capital Fund;
- oversee inventory managed and held by contractors and other defense organizations;
- develop sufficient policies, procedures, and internal controls over Accounts Payable, gross costs, and contract financing payments; or
- correctly apply its revenue recognition and support its accounts receivable.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF Working Capital Fund's financial management systems did not comply with the Federal Financial


* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF Working Capital Fund FY 2024 and FY 2023 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2024 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:



Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



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Report of Independent Auditors

The Secretary of the Air Force and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the “financial statements”).

We do not express an opinion on the accompanying financial statements of the DAF WCF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF WCF’s financial statements as of and for the years ended September 30, 2024 and 2023.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, there are several areas where the DAF WCF is not following U.S. generally accepted accounting principles.

The DAF WCF has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on the DAF WCF’s financial statements as of and for the years ended September 30, 2024 and 2023 is not currently determinable by the DAF WCF and could be material.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF WCF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF WCF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report. We do not express an opinion or provide any assurance on the information.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2024 on our consideration of the DAF WCF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 8, 2024



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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and our report dated November 8, 2024 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters of the DAF WCF’s financial statements as of and for the year ended September 30, 2024 is not currently determinable by the DAF WCF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF WCF’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF WCF’s internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF WCF’s internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be



material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below and in more detail in Appendix A Items I. through VIII, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. *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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described below and in Appendix A as Items I. through VII. to be material weaknesses.

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. We consider the deficiencies in internal control described below and in Appendix A as Item VIII. to be a significant deficiency.

Material Weaknesses

- I. Entity Level Controls (ELCs) - Establishing ELCs is a primary step in operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. The lack of sufficient attention to these matters will hinder the entity's ability to remediate existing material weaknesses as well as limit the ability to develop and sustain future financial management capabilities.

During our procedures, we identified the following deficiencies related to the DAF WCF's control environment, risk assessment, control activities, information and communication and monitoring components:

- Enhanced integration and oversight of risks by enterprise leadership is needed
- Additional emphasis needed to meet external financial reporting objectives

- II. Integration and Reconciliation of Financial Systems - To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF WCF has a complex systems environment consisting of many non-integrated systems that use non-standard data and requires numerous manual workarounds. The lack of an integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF WCF continues to rely on both manual re-entry of data into



multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Lack of monitoring over posting logic compliance with the United States Standard General Ledger (USSGL)
- Inability to maintain and/or provide supporting documentation in a timely manner
- Enterprise IT strategy has not been formalized and fully implemented

- III. Financial Information Systems – Our assessment of the DAF WCF’s IT controls and the computing environment identified deficiencies, which collectively constitute a material weakness in the design and operation of information systems controls over financial data.

We identified the lack of sufficient controls in the following areas:

IT General Controls

- Access controls
- Configuration management /system change controls
- Segregation of duties
- Security management

Application Controls

- Interface controls

- IV. Inventory Held by the DAF WCF – Inventory is a component of Inventory and Related Property, Net within the consolidated balance sheet. The balance includes supplies and spare parts at bases and maintenance depots, as well as parts awaiting or undergoing repair for reuse. The value of individual assets is determined based on their condition. Acquired supplies and parts are valued based upon the moving average acquisition cost while repairable and repaired parts are valued based upon the internal and external costs incurred to repair.

We identified the following:

- Lack of sufficient inventory count procedures and controls
- Lack of sufficient policies, procedures and controls over inventory valuation
- Lack of sufficient policies, procedures and controls over inventory movement transactions
- Inability to identify and value in-transit inventory



- V. Inventory Held by Others – The DAF WCF has shared service arrangements with other defense organizations and commercial contractors to hold or repair inventory and equipment to avoid duplication of efforts. We found that in many of these instances the DAF WCF is heavily reliant upon the other party to report activity and balances related to those materials and to maintain effective internal controls over quantities.

We identified the following:

- Insufficient oversight of inventory managed by the Defense Logistics Agency (DLA)
- Insufficient oversight of inventory managed by contractors and other defense organizations

- VI. Accounts Payable (AP), Gross Costs, and Accounting for Contract Financing Payments (CFP) – AP represents the amount owed to third parties by the DAF WCF for goods and services received. Gross Costs are incurred and recognized when the DAF WCF obtains goods and services from the public or other federal entities. CFP are authorized disbursements to a contractor prior to the acceptance of supplies or services by the Government. The DAF WCF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inadequate controls over accounts payable, contract financing payments, gross costs, cash disbursement and obligation processes

- VII. Earned Revenue and Accounts Receivable – The DAF WCF recognizes revenue and related accounts receivable balances for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF recognizes “Flying Hours” revenue based upon the flying hours executed. The DAF WCF recognizes supply revenue for inventory sold based on the delivery of the inventory items.

We identified the following:

- Incorrect application of the percentage of completion revenue recognition method for maintenance revenue
- Inability to support invoice level accounts receivable subledgers

Significant Deficiency

- VIII. General Property, Plant and Equipment (GPP&E) – The DAF WCF does not have adequate policies, procedures, internal controls, and supporting documentation in place to appropriately record GPP&E activity in the financial statements.



DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 8, 2024. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 on our tests of the DAF WCF compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's compliance.



November 8, 2024



Appendix A

Material Weaknesses

I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing Entity Level Controls (ELCs) is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level, and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF WCF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with the Enterprise Risk Management and Fraud Risk Management requirements to improve effectiveness and accountability, instead of considering internal control as an isolated management tool. Thus, internal control should be an integral part of the entire cycle of planning, budgeting, management, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF WCF has cross-cutting financial, IT, and operational risks that impacts the entity's ability to achieve and sustain an effective internal control environment. Although the DAF WCF has started to develop an integrated prioritization for evaluating and remediating these risks (in concert with its roadmap towards becoming auditable), Without immediate action and sufficient attention to these matters, the DAF WCF will be challenged to remediate existing material weaknesses timely.

During our procedures, we identified the following deficiencies that aggregated into this material weakness:

(a) Enhanced integration and oversight of risks by enterprise leadership is needed

The Deputy Assistant Secretary for Financial Operations (SAF/FMF and SAF/FM CIO) has the overall responsibility for the DAF WCF's financial statement audit readiness and compliance, while Air Force Material Command (AFMC) has functional responsibility for audit readiness for the DAF WCF; however, efforts supporting financial statement audit and audit remediation



requires inputs from the entire organization, including major commands (MAJCOMs), field commands (FLDCOM) and Headquarters Air Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

We identified the following conditions that indicate a lack of consistent integration and oversight across the DAF to sufficiently address financial reporting issues and risks:

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF WCF governance activities continue to mature as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how DAF WCF’s enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. As a result, service providers, functional communities, AFMC/FM, and IT may be developing separate and disconnected remediation efforts that may not necessarily be tied to the risks of material misstatements. Additionally, Enterprise leadership is not fully integrated in the evaluation of risks (i.e. detect and correct approach versus designing a preventative measure to get it right the first time) and in determining the best course of action for the entity as a whole thereby leading to corrections being made by AFMC/FM on the back end to correct for data anomalies instead of analyses being executed up-front. Furthermore, DAF WCF’s Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.

(b) Additional emphasis needed to meet external financial reporting objectives

While the DAF WCF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF WCF’s financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF WCF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. The DAF WCF has not fully established a process to effectively assess, monitor, and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF WCF and could be material.



Enhanced financial statement review procedures are needed

The DAF WCF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as:
 - Lack of complete and accurate disclosures.
 - Continued enhancement of the DAF WCF Accounting Oversight & Data Analysis branch is needed to ensure sufficient controls and procedures related to financial statement analytical reviews and oversight.

The DAF WCF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans, and annual results of the DAF WCF.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to enhanced integration and oversight of risks by enterprise leadership is needed

- Enhance the existing risk assessment of the DAF WCF Internal Control Program and verify that all risks are identified, assessed, and concluded upon annually.
- Enhance ongoing reviews of areas AU level testing to ensure disclosures are complete, accurate and compliant with OMB Circular A-123 and Government Accountability Office (GAO) Green Book guidance.
- Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
- Refocus the execution for risk identification and communication within the organization to a primary focus on the most critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.) that have risks of material misstatement.



- Continue to develop mechanisms to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
- Enhance formal lines of communication about ongoing operational activities that impact the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.

Related to additional emphasis needed to meet external financial reporting objectives

- Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
- Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.
- Design and implement control activities which identify accounting estimates and monitor the appropriateness of the method, model, and assumptions utilized to determine the estimates.
- Design and implement control activities to perform and monitor balance sheet account reconciliations.
- Enhance internal control procedures related to financial statement analytical reviews.
- Enhance procedures related to Journal Voucher oversight.

II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources, and provides timely access to better data for decision-making purposes.

Although the DAF WCF is progressing towards modernized financial systems, the entity's system environment continues to include legacy and standalone systems. This includes the DAF WCF's legacy general ledger system, General Accounting and Finance System-Reengineered (GAFS-R). While the DAF WCF is prioritizing investment on more modernized IT systems, such as Maintenance Repair and Overhaul (MRO), and cloud hosting environments, such as Amazon Web Services (AWS) and Microsoft Azure, the DAF WCF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment. As the DAF WCF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT, and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF WCF will



continue to experience many of the similar challenges discussed within this report and further inhibit the entity's ability to produce timely and auditable financial statements and remediate existing material weaknesses.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF WCF currently does not have a complete understanding of its universe of transactions. This assessment is critical for management to understand and document the mapping of the internal processes, flow of data, and controls performed to ensure output data is complete and accurate. Additionally, many of the DAF WCF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF WCF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair, and remediation cycle. The DAF WCF will need to implement and operate a sustainable and auditable business environment through enhanced integration and innovation capabilities deployed in a targeted and coordinated manner. During our procedures, we identified the following:

- Accountable Property System of Record (APSR) reconciliations are reconciliations that occur in order to assert that feeder files reconcile completely and accurately to the corporate general ledger (General Accounting and Finance System – Re-engineered (GAFS-R)). There are eighteen APSR reconciliations completed through the DAF WCF's Universe of Transactions (UoT) process. The APSR reconciliations include, but are not limited to, reconciling the Integrated Logistics Systems-Supply (ILS-S), Defense Medical Logistics Standard Support (DMLSS), and Financial Inventory Accounting and Billing System (FIABS) to Standard Material Accounting System (SMAS), along with reconciling SMAS and the Defense Industrial Financial Management System (DIFMS), to GAFS-R. While progress has been made, the DAF WCF lacks certain aspects of an effective control environment related to the UoT reconciliation process, including control activities to identify, investigate and remediate variances timely identified by the reconciliations.
- The Unadjusted Trial Balance to Adjusted Trial Balance (UTB to ATB) reconciliation is designed to reconcile the feeder systems to the financial statements and provide reasonable assurance that these trial balances are complete and accurate. The DAF WCF currently performs a UTB to ATB reconciliation at the summary trial balance level and identifies journal vouchers (JV's) which explain the variance. The DAF WCF was unable to provide a sufficient UTB to ATB reconciliation as it was unable to identify JV's which impacted the reconciliation within the Defense Departmental Reporting System – Budgetary (DDRS-B). Further, the DAF WCF was unable to identify prior year adjustments within GASF-R beginning balances which impacted the reconciliation. As a result, it is unable to accurately reconcile all balances.
- The Financial Statement Reconciliation process is a summary reconciliation that extracts raw data from the DAF WCF systems and separates the financial statement line-item data by Assessable Unit in order to reconcile the DAF WCF universe of transaction to the financial



statements. The DAF WCF currently has not identified key controls over the Financial Statement Reconciliation process it is performing, including control activities to identify, investigate and remediate variances identified in the reconciliation.

- A reconciliation was performed by the DAF WCF between the data from the various inventory feeder systems and the data which ultimately flows to FIABS. As a result of this reconciliation, the DAF WCF identified that there are quantity differences between FIABS and the identified feeder systems. While some progress has been made, the DAF WCF has not fully determined the underlying cause of the differences nor how to resolve them. Further, the DAF WCF has not applied dollar values to all of the quantity differences to fully assess their financial statement impact.

Additionally, Intragovernmental transactions result from business activities conducted between two federal government entities, called trading partners. Accounting differences occur in government-wide financial reporting when trading partners record differing amounts for transactions that should eliminate or net to zero. Trading partners must reconcile and resolve these differences on a routine basis. Through September 30, 2024, the Department of Defense (DoD) reporting entity making sales or providing services (“seller-side”) was the basis for reporting most of the DAF WCF’s intra-DoD balances. There was no reconciliation at the agreement or document level to the trading partner adjustments made. Trading partner adjustments are recorded in Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as top-side adjustments and are identified as unsupported by DFAS.

The above examples demonstrate the complexity of the system environment and the need for a robust understanding of the flow of data to the financial statements. As a result, the DAF WCF was unable to support whether the transactions recorded in the financial statements were complete or accurate.

(b) Lack of monitoring over posting logic compliance with the USSGL

The DAF WCF and its service provider, DFAS, do not currently have a review process in place to ensure that the mappings applied are compliant with the Treasury Financial Manual (TFM). Throughout the course of the year, transactions from supply base level systems (FIABS, ILS-S and DMLSS) flow from the subledgers to the general ledger (SMAS) and then to the corporate general ledger (GAFS-R). On the maintenance side, transactions flow from the general ledger (DIFMS) to the corporate general ledger (GAFS-R). Posting logic applications take transactions at the subledger level and properly classify them into general ledger accounts (i.e., USSGL). FIABS, SMAS, and DIFMS all apply posting logic. This mapping allows transactions to properly post and ultimately impact the intended financial statement line item.



(c) Inability to maintain and/or provide supporting documentation in a timely manner

Further progress is needed by the DAF WCF and its external parties to provide complete documentation, in a timely manner, to support an audit.

During our current year testing, we identified the following:

- Improper management and retention of supporting documentation. (e.g., support agreement, customer order/acceptance, customer voucher, shipping documentation, vendor invoice, evidence of review control execution).
- Lack of consistent implementation of documentation standards for maintaining complete records.
- Inability to provide supporting documentation to auditors in a consistent and timely manner.
- Inability to provide transactional data that reconciles to the summarized trial balance amounts that comprise the beginning budgetary and proprietary financial statement balances. Currently, there are no policies or procedures to mitigate this system weakness. Further, no documentation is maintained from prior periods to support beginning balances.

The DAF WCF's inability to provide adequate support for accounting transactions and control execution, increases the risk of a misstatement that could impact the financial statements. Furthermore, without such supporting documentation and proper audit trail, there is an increased risk of deficiencies in internal control over financial reporting and noncompliance with applicable laws and regulations.

(d) Enterprise IT strategy has not been formalized and fully implemented

In accordance with the GAO Green Book, management should design information system and related control activities to achieve objectives and respond to risks. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. Information technology enables information related to operational processes to become available to the entity on a timelier basis.

We identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy related to internal controls over financial reporting:

- The DAF WCF is currently in the process of modernizing its system environment by replacing legacy systems with a centralized enterprise business suite. The modernization of the DAF WCF's system architecture will require a complex series of transitional interfaces and synchronization of legacy system interactions. In executing the process of modernizing its system environment, the DAF WCF lacks a comprehensive strategic vision for the implementation of new financial management systems and the subsumption or sunset of existing systems. For example, the current financial management system



modernization plan does not consider all legacy systems, and some identified systems do not have a target subsumption or sunset date.

- There is inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise. Cross-functional requirements and IT controls are not fully integrated during new application implementation and/or legacy application modernization. For example, enhanced project accounting could occur through the use of integrated modules incorporating processes such as procurement, accounts payable and GPP&E/inventory.
- There is insufficient integration of system oversight between financial management and functional organizations. Although the financial management portfolio board, which includes representation from SAF AQ, DFAS, SAF/MG among others, as well as the A4 portfolio board, meet on a monthly basis to discuss the current status of application consolidation/modernization, status of Corrective Action Plans (CAPs) and related matters, its oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the Department of the Air Force (DAF) exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated.
- There is a lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems. A comprehensive Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce skillsets and training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to inability to validate the completeness of transactions underlying the financial statements

- Develop/enhance the process to perform a quarterly detail level UTB to ATB reconciliation using the full detail data sets, including appropriate identification of JV's, to ensure the completeness and accuracy of the data as it flows from the general ledger to the financial statements.
- Design effective UoT control activities which prevent or detect the identified risks of material misstatement.
- Design effective Financial Statement Reconciliation control activities which prevent or detect the identified risks of material misstatement.



- Investigate and determine the cause of the inventory quantity variances within FIABS resulting from the lack of identified feeder system quantities. In addition, the DAF WCF should implement effective feeder system data reconciliation procedures and controls to support the beginning balance of inventory within FIABS and ensure all balances in FIABS are reconciled to an identified feeder system on an ongoing basis.
- Implement document level reconciliations with the DAF WCF trading partners and develop a process for resolving differences at the document level.

Related to lack of monitoring over posting logic compliance with the USSGL

- Ensure mapping of SMAS, FIABS, ILS-S, DMLSS, and DIFMS posting logic rules to TFM entries.
- For any new SMAS, FIABS, ILS-S, DMLSS, or DIFMS posting logic rules, develop policies and procedures to review new posting logic rules for TFM compliance prior to implementation.

Related to inability to maintain and/or provide supporting documentation in a timely manner

- Address the DAF WCF/DFAS ability to access and provide supporting documentation for significant transactions.
- Update the DAF WCF policies and procedures to ensure its internal controls provide adequate support for material amounts on the consolidated financial statements pertaining to beginning budgetary and proprietary financial statement balances.

Related to enterprise IT strategy has not been formalized and fully implemented

- Develop a comprehensive integrated financial management system modernization plan that considers long-term requirements for resources and funding, necessary changes to interfaces and business process controls throughout each phase of the plan, and development of effective IT general controls. Consider the following points when developing the system modernization plan:
 - Plan to continually retire/decommission legacy applications and reduce the number of duplicated system functions
 - Develop and consistently implement an enterprise-wide, comprehensive plan to improve financial and financial feeder system data analytics
 - Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide a holistic understanding of risks across the enterprise. Elements that should be included in the Enterprise IT strategy and governance include:
 - Implementation of planning, programming, budgeting, and execution of resources in alignment with strategies and priorities.
 - Incorporation of compliance requirements with applicable laws, regulations, and policies into system life-cycle management.



- Focused financial system modernization on mission effectiveness, cybersecurity, cost efficiency and system interoperability, and enterprise shared services.
 - Prioritize cross-functional requirements into the design and system modernization implementation efforts as well as interoperability and interfaces between financially relevant systems.
- The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate DAF's IT modernization plan and timelines as part of this prioritization effort.
- Implement automated control processes to assist in sustaining effective controls over the long-term (i.e. Identity, Credential, and Access Management, Security Information and Event Management and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.
- Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts. This will prevent repetition of similar findings across the enterprise.

III. FINANCIAL INFORMATION SYSTEMS

Information System (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- IT General Controls
 - Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
 - Configuration Management (CM)/System Change Controls: Controls provide reasonable assurance that changes to the information system (e.g., code and configurations) are authorized and operating as intended.
 - Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are identified and effectively segregated enforcing principle of least privilege.
 - Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are effectively implemented.
- Application Controls
 - Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is completely and accurately processed into the receiving systems.



ITGCs support the continued functioning of application controls, the automated aspects of IT-dependent manual controls, and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF WCF's financial statements, financial reporting, IT environment and financial applications.

The DAF WCF continues to make progress in remediating prior year IT findings. For example, program and functional management across DAF resolved many prior-year control deficiencies related to validation of completeness and accuracy for reports used for management review controls, monitoring of system changes as part of configuration management, and system security settings (e.g., database and operating system passwords).

As the DAF WCF continues to modernize IT applications, it is critical to integrate information systems controls as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF WCF's IT controls environment post implementation. The DAF WCF also needs to evaluate the impact of existing IT deficiencies on future material weakness mitigation efforts.

For example, insufficient consideration of the impact of relevant IT system findings and prior year management risk acceptance conclusions (e.g., lack of sufficient controls over relevant interfaces) continues to impact the DAF WCF's ability to utilize and rely on data extracted and used in the execution of financial control activities. The DAF WCF's leveraging of the lessons learned from successful remediations of IT general and application controls deficiencies across financially significant applications is critical as existing investments are made by the DAF WCF and for overall sustainment of an effective IT control environment.

While the DAF has remediated many audit findings across various IT control areas for fiscal year 2024 (FY24), a majority of the DAF WCF's in-scope financial applications however, had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties and change management control domains.

Ineffective ITGCs will continue to impact any of the DAF WCF's material weakness mitigation plans in future years. For example, the lack of adequate ITGCs around both large and micro-applications, ad-hoc reporting tools, etc., used for reconciliation of financially significant data, increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations. Management's inability to leverage critical existing functionalities available within financial applications is leading to the DAF WCF not realizing the full return on investment (RoI) already



made in modernizing its IT infrastructure coupled with an inability to rely on application controls where most financial transaction processing efficiencies could be gained. As a result, this inhibits the DAF WCF's ability to enhance the timeliness, availability, and accuracy of information, as produced by IT systems, without manual intervention. For example, management has not fully leveraged:

- Additional edit checks and/or controls embedded within an application to prevent processing errors rather than relying primarily on manual detective and workaround controls.
- Existing logging capabilities (or leverage commonly used logging technology consistent with a given environment, e.g., cloud environment audit tools) to produce and retain complete and accurate audit trails of changes to software production code, application configurations, data directly modified by database accounts and key reports.
- Knowledge of how information produced by the entity is generated from source systems to validate and document the completeness and accuracy of data used in management review controls and reporting.

(a) Access Controls

Access controls include those related to protecting user identification and authentication, authorization, protecting sensitive system resources, as well as audit and monitoring. When access controls are properly implemented, logical access to relevant computer programs and data is granted appropriately to only authorized users. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed. The following access control weaknesses in aggregate, represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Access requests and authorized approvals are not being properly documented prior to provisioning.
- Periodic reviews of access, including privileged user access, were not performed appropriately.
- Procedures for monitoring and auditing financial relevant user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system and manually generated reports used for access activity and review controls are not being validated by management responsible for reviewing these reports.
- Password and other security settings are not properly configured based on management



- policies and/or best practice.
- Role-based access controls are not enforced to restrict users from combining incompatible roles/functions.
- The entity was not able to provide a complete and accurate listing of contractor and personnel terminations.

(b) Configuration Management/System Change Controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point, and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, the DAF WCF can verify that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of application business process (BP) controls and sensitive data; these deficiencies also increase the risk that such data may be inappropriately used and disclosed.

The following change control weaknesses in aggregate as discussed below represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Lack of segregation of duties throughout the change management process, in which developers were granted inappropriate access that allows them to make changes directly in production environments without appropriate compensatory controls.
- Changes are not properly reviewed, approved, tested, and documented.
- Code and configuration changes to production environments are not being monitored to verify for appropriateness.
- Direct changes to data in production are not monitored and made without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports used for change monitoring controls are not being verified by management responsible for reviewing these reports.

(c) Segregation of Duties (SoD)

Segregation of duties refers to the policies, procedures, and organizational structures that help ensure that no single individual can independently control all key aspects of a process or computer-related operation and thereby gain unauthorized access to assets or records. By implementing effective SoD controls, the likelihood that errors and wrongful acts will go undetected diminishes, because the activities of one individual or group will serve as a check on the activities of the other. Effective segregation of duties includes segregating incompatible duties, maintaining formal operating procedures, supervision, and review.



SoD weaknesses identified in the FY24 audit, in aggregate, represent a significant risk to the WCF IT environment (relevant to the financial applications). The identified SoD weaknesses that represent a significant risk to the financial management information systems environment include the following:

- Policies and procedures did not identify potential SoD conflicts within the applications.
- Some systems do not have a fully comprehensive matrix and/or enforcement of access restrictions based on the SoD matrix are not being implemented consistently.
- Controls were not in place to verify conflicting roles were not assigned to individuals during the access provisioning process, and for known conflicts where SoD concerns were identified, subsequent logging and review of a user's activity was not in place and monitored for appropriateness.
- Conflicting roles that were deemed necessary or required due to a business need were not documented, assessed, and monitored for usage on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions; for example, users were able to add, modify, and delete user access to the application, while also having access to process and modify production data.
- The completeness and accuracy of system and manually generated reports used for SoD monitoring controls are not being verified by management responsible for reviewing these reports.

(d) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing, and implementing effective security procedures, and monitoring the effectiveness of these procedures. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures and controls implement the entity-wide policy. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. The following security management weaknesses in aggregate represent a significant risk to the DAF IT environment (relevant to the financial applications):

- Plans of action milestones (POA&Ms) for open vulnerabilities are not actively being managed through completion.
- Periodic review of POA&M implementation progress is not being conducted timely.
- For systems that have IT processes, such as infrastructure hosting, managed by a service



organization (e.g., DISA, CloudOne (C1)), (1) SOC reports are not being properly reviewed for impacts of SOC findings as well as applicability of CUECs, or (2) in the absence of a SOC report, management is not obtaining sufficient evidence from third parties to evidence the effectiveness of their controls that are relevant to the DAF information systems.

- There is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.

(e) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis. The objectives of interface controls are to:

- Implement an effective interface strategy and design.
- Implement effective interface processing procedures, which includes the reasonable assurance that:
 - Interfaces are processed completely, accurately, and only once in the proper period.
 - Interface errors are rejected, isolated, and corrected in a timely manner.
 - Access to interface data and processes are properly restricted.

Interface control weaknesses in aggregate as discussed below represent a significant risk to the WCF IT environment (relevant to the financial applications).

The identified interface control weaknesses that represent a significant risk to the financial management information systems environment include the following:

- Interface files are not protected from unauthorized access and modification.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- Appropriate procedures for interface error identification and correction are not in place or are not being consistently performed.
- The completeness and accuracy of system and manually generated reports used for interface review controls are not being verified by management responsible for reviewing these reports.
- Procedures are insufficient to restrict the processing of interface files more than once.

Recommendations:

The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF WCF's IT modernization plan and timelines as part of this prioritization effort.



Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

The DAF WCF should establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

The DAF WCF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management, and interface procedures to include:

- Access controls /segregation of duties:
 - Implement monitoring and review controls for users with elevated access privileges.
 - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.
 - Develop, document and implement procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures. Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
 - Document policies to define procedures required to investigate activities of unauthorized users identified during periodic user access reviews. For example, establish look-back procedures that involve review of audit logs to detect and remediate the activities of the unauthorized user.
 - Perform procedures to gain comfort over the completeness and accuracy of reports utilized in periodic user access reviews. For example, review and retain the parameters of the script utilized.
- Configuration management / system change controls:
 - Implement segregation of duties within the configuration/change management process, in which developers should not have access to migrate change to production. Appropriate risk assessment and compensatory controls should be in place for system operational purpose if needed.
 - Document and retain adequate evidence of change requests, testing, and approvals.
 - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
 - Implement controls verifying the completeness and accuracy of management reports.
 - Restrict access to application source code to only authorized users.



- Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- Establish baselines for scripts utilized to generate change monitoring reports and compare current versions of scripts to the baseline to determine if unauthorized changes were made to code.
- Document requirements for periodic reviews of script logic within policies and define follow-up procedures to investigate unauthorized changes.
- Security Management:
 - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
 - Define and implement consistent procedures related to periodic security controls assessments and testing.
 - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
 - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement, and conduct appropriate oversight and monitoring over the execution of inherited controls.
- Interface controls:
 - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures, and protection from unauthorized access.
 - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces.
 - Develop, document, and implement procedures for performing interface error handling and correction.
 - Restrict access to interface files and interface processing programs to authorized users and monitor these users' access for continued appropriateness.
- Data completeness and accuracy – applicable to all control areas:
 - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.
 - Develop and implement controls to maintain the integrity, completeness, and accuracy of data throughout the system modernization cycle.



IV. INVENTORY HELD BY THE DAF WCF

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient inventory count procedures and controls

Inventory held by the DAF WCF is primarily categorized as Depot inventory, Base Possessed inventory, and Medical Dental Division (MDD) inventory. Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements.

- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for organic maintenance inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for base possessed inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for MDD inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.

(b) Lack of sufficient policies, procedures and controls over inventory valuation

In general, inventory is valued at either an assigned value based on moving average cost (MAC) or, in the instance an asset is being repaired, assigned a carcass value by the DAF WCF. For these assets, once the repair is complete, the cost of the repair shall be capitalized along with the carcass value in the inventory account in order to bring the asset to serviceable value.

MAC calculation process, including assets held for repair

The DAF WCF uses the MAC process to value the majority of its inventory. MAC is an approved historical cost valuation methodology for inventory in accordance with SFFAS 3 *Accounting for Inventory and Related Property* (SFFAS 3). The MAC calculates historical cost based upon an average of the on-hand quantity of an item's historical procurement prices. MAC values inventory on a perpetual basis; as a receipt of property is inducted, ILS-S or FIABS automatically computes MAC. MAC is additionally calculated upon the receipt of an asset back from the repair cycle, with the associated repair costs capitalized into the asset. The calculation of MAC is a heavily automated process that requires interactions amongst groups of systems and interfaces within the DAF WCF system environment. The DAF WCF does not have the appropriate controls or



procedures in place for reviewing changes or transactions related to the MAC calculation process, leading to an increased risk of inaccurate valuation of inventory.

During our procedures, we had the following observations related to the MAC calculation process:

- Currently there is a lack of periodic reviews of data inputs for local purchases in ILS-S and FIABS, as well as local purchases by DLA. The data entry is completed manually and no secondary review of these transactions or sample audit of these transactions occurs.
- The DAF WCF does not currently have formal documentation in the form of a process narrative or other document which identifies new controls over Inventory Held for Repair Valuation (LAC calculation, LRC calculation, and MAC recalculation process through the repair process) subsequent to the adoption of the Direct Method of accounting for Inventory Held for Repair.
- The DAF WCF does not currently produce a subledger to report the balances of the WIP inventory account nor has identified controls over the WIP inventory process.
- Lack of a sufficient and effective control monitoring program for the valuation of Organic Depot Maintenance inventory

(c) Lack of sufficient policies, procedures and controls over inventory movement transactions

The DAF WCF did not consistently execute internal controls to ensure inventory movements (inductions, issuances, or disposals) were completely and accurately reflected within the supply systems. Additionally, the complete end-to-end processes, procedures, and key controls for portions of the inventory movement processes are not accurately and/or fully documented.

- The procedures and controls performed to induct, adjust, and change condition codes of Depot inventory, Base Possessed inventory, and MDD inventory are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements.
- The DAF WCF personnel utilize degraded operations procedures to record inventory movements when ILS-S is not online. Degraded operations transactions are manually recorded within a log and then manually transferred into ILS-S once it is back online. The DAF WCF does not assess materiality of such transactions recorded at or near year-end. .
- The DAF WCF currently does not have detailed accounting policy interpretations and definitions for the Excess and Obsolete categorizations of inventory as identified in Statement of Federal Financial Accounting Standards (SFFAS) 3.



(d) Inability to identify and value in-transit inventory

As inventory is moved between the DAF WCF locations, those in-transit items are removed from the supply systems upon shipment and re-recorded in the supply systems upon reaching their destination. While progress has been made, the DAF WCF remains unable to appropriately identify a complete and accurate population of both quantities and values of in-transit inventory at the transaction level. The balance of in-transit inventory recorded in the financial statements was primarily determined by an aging-based estimation methodology which lacks appropriate precision. This likely causes misstatements in inventory balances. During our procedures, we had the following observations related to inventory-in transit:

- The DAF WCF has initially developed in-transit listings for SCS ILS-S, and DMLSS to provide visibility over the number and value of open in-transit transactions at a given period end, which represents transactions that have been shipped from one location, but not yet received at the receiving location and recorded within the system. However, the results of our SCS and ILS-S testing resulted in inaccurate inclusion of transactions within the in-transit listings. The DMLSS in-transit listing was not final nor was it tested by EY.
- The DAF WCF has not designed, implemented, or documented within an existing process cycle memorandum (PCM) appropriate oversight and monitoring controls over SCS, ILS-S and DMLSS in-transit inventory.
- The DAF WCF identified various data paths through which SCS in-transit inventory transactions are created and subsequently cleared. However, the DAF WCF has not currently identified the automated controls by which in-transit records are created and subsequently cleared from the in-transit listings in a PCM. Additionally, the DAF has not identified in a PCM or implemented a review control that ensures data paths that lack an interface and the transactions within that data path are manually reviewed in order to overcome the lack of an existing interface.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to inventory count procedures and controls

- Design effective control activities which prevent or detect the identified risks of material misstatement for organic maintenance, base possessed, and MDD cycle counts.
- Execute the designed control activities.
- Maintain sufficient evidence of the design and execution of the identified control activities.



Related to inventory valuation – MAC, including assets held for repair

- Implement controls representing periodic reviews or samples audits of transaction for data inputs of local purchases in ILS-S and FIABS.
- Design effective control activities which prevent or detect the identified risks of material misstatement.
- Maintain sufficient evidence of the design and execution of the identified control activities.
- Create a WIP subledger and identify associated control processes to monitor the completeness and accuracy of balances recorded in the WIP GLAC

Related to inventory movement

- Design control activities which prevent or detect the identified risks of material misstatement for inventory movements.
- Execute the designed control activities.
- Maintain sufficient evidence of the design and execution of identified control activities.
- Establish a policy in writing that interprets the SFFAS 3 definition of Excess and Obsolete inventory as it relates to the accounting for inventory transactions under the DAF WCF's operational procedures.

Related to in-transit inventory

- Design, identify and execute periodic oversight and monitoring controls over in-transit inventory for SCS ILS-S, and DMLSS.
- Identify and implement key SCS application and interface controls within either a new or existing PCM for each data path.
- Identify and implement manual SCS review controls within a PCM for each data path in which an interface does not exist.

V. INVENTORY HELD BY OTHERS

A significant portion of the DAF WCF inventory balances are held by others, including DLA, outside contractors, and other defense organizations.

The following deficiencies aggregate into this material weakness:

(a) Insufficient oversight of inventory managed by DLA

We identified that the DAF WCF does not have sufficient controls in place to ensure balances being recorded through the DLA DSS system are complete and accurate. DLA DSS is a feeder system which flows into the DAF WCF inventory subledger. The DAF relies on DLA to report



inventory quantities on hand at period end through DLA DSS. The DAF WCF's current policy is to adjust the inventory records to the quantities reported by DLA. This policy can result in discrepancies in inventory quantities when compared to the DAF WCF records of DLA managed inventory items. The DAF WCF is currently not performing an analysis to determine the appropriateness of changes recorded as a result of DLA's balances compared to the DAF WCF records.

DLA is a material service provider to the DAF WCF. The DAF WCF has not assessed all DLA functions to determine which risks of material misstatement and internal controls are material to DAF WCF's internal control over financial reporting. Further, the DAF WCF has not implemented controls specific to its review of the DLA Service Owned Inventory in DLA Custody (SOIDC) SOC report. Specifically, the DAF WCF has not evaluated the complementary user entity controls (CUECs) identified in the current DLA SOIDC SOC report and mapped relevant CUECs to DAF WCF internal controls. The DAF WCF also has not considered the impact of deficiencies identified in the DLA SOIDC SOC report on its internal control over financial reporting.

(b) Insufficient oversight of inventory managed by contractors and other defense organizations

Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements. The DAF WCF utilizes multiple third parties to hold and repair inventory in order to avoid duplication of efforts. In reporting inventory balances held at third party locations, the DAF WCF is responsible to ensure the completeness and accuracy of the information being reported on its financial statement and related footnotes. EY identified multiple conditions precluding the DAF WCF from effectively executing oversight of assets held by contractors and other defense organizations on behalf of the DAF WCF.

A reconciliation was performed by the DAF WCF between the quantity data from various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the FIABS inventory subledger. As a result of this reconciliation, the DAF WCF identified that there are quantity differences and potential duplicate records between the inventory subledger and the identified feeder systems. We identified the following conditions regarding the reconciliation:

- While progress has been made in determining and resolving the underlying causes of the quantity differences within the reconciliation, all material differences have not been resolved.
- Material interfaces between the feeder systems and the inventory subledger have not been identified and validated for completeness and accuracy.
- Dollar values have not been applied to all quantity differences to assess their complete financial statement impact.
- Controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation have not been established.



- A standard operating procedure and ongoing internal controls pertaining to the reconciliation have not been developed.

During the performance of inventory observation procedures, we identified multiple instances where location data within the DAF WCF's inventory subledger did not match the asset's physical location. Additionally, as a result of these observations, inventory quantity differences were identified between the DAF WCF inventory feeder system and contractor systems, as well as differences between contractor systems and on-hand quantities. Without accurate tracking of the inventory held by third parties on the DAF WCF's behalf, management is unable to assess the completeness, existence, and accuracy of inventory balances in other organizations' custody.

Additionally, we identified certain assets that were recorded within the inventory subledger as on-hand with contractors that had already been physically shipped back to the DAF WCF, causing the assets to be double counted in prior years. At the time, the DAF WCF identified the population of assets within this scenario and worked to correct the transactions prior to year-end, however, no effective internal controls currently exist to address this circumstance should it arise again. The DAF WCF determined that there is not one, single root cause creating the hanging shipments, and further evaluation must be performed to help pinpoint the underlying driver for the transactions not being processed correctly.

We additionally determined that the DAF WCF has not fully identified the material aspects of the process, risks of material misstatement, DAF WCF controls, and contractor or other defense organization controls within its process narratives pertaining to inventory managed by contractors or other defense organizations.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

Related to the insufficient oversight of inventory managed by DLA

- Evaluate the most effective approach to ensure the controls being performed by the DAF WCF and the DLA impacting the DLA managed inventory process are designed and operated effectively to prevent and/or detect material misstatements:
 - Evaluate the existing DLA SOIDC SOC-1 report to ensure the report is scoped for the specific risks associated to the functions the DLA performs on behalf of the DAF WCF.
 - Evaluate the CUECs identified within the current DLA SOIDC SOC report to determine whether all CUECs are relevant to the DAF WCF's processes and use of the DLA.



- Evaluate which process narratives are required to be updated for the identified CUECs from the DLA SOIDC SOC-1 report based on the underlying nature of the identified CUEC.
- Map the CUECs, as identified within the DLA SOIDC SOC-1 report, to the DAF WCF process narratives to ensure the DAF WCF control environment is responsive to the risks related to the use of the DLA.
- Design, implement, and maintain evidence for internal control activities performed by the DAF WCF related to the DLA managed inventory process which prevent or detect misstatements.

Related to the insufficient oversight of inventory managed by contractors and other defense organizations

- Pertaining to the reconciliation of various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the inventory subledger:
 - Establish controls and procedures to document the underlying drivers of identified variances, the process by which those variances were investigated, and the eventual resolution of identified variances including appropriate retention of supporting evidence.
 - Identify and validate the completeness and accuracy of interfaces between the feeder systems and the inventory subledger.
 - Apply dollar values to all identified quantity differences in the reconciliation in order to assess their materiality.
 - Establish controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation.
- Effectively design and operate controls related to the contractor managed and other defense organization managed inventory processes in order to prevent or detect material misstatements. In determining the extent of control procedures required, the assessment should continuously consider the materiality of the balance of inventory and transaction volume pertaining to each contractor or other defense organization.
- Implement periodic review controls over contractor managed inventory to include locational data completeness and accuracy.
- Perform inventory existence and completeness count procedures over contractor and other defense organization managed inventory balances.
- Perform periodic reconciliation of inventories reported by contractors and other defense organizations to the DAF WCF inventory subledger. Investigate and resolve reconciling items in a timely manner.
- Identify and implement a review control over the “Received, Not Shipped” report, including timely follow up and resolution procedures.



VI. ACCOUNTS PAYABLE, GROSS COSTS AND ACCOUNTING FOR CONTRACT FINANCING PAYMENTS

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The DAF WCF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), gross costs, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF WCF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Inadequate controls over AP, CFP, gross costs, cash disbursement and obligation processes

The DAF WCF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, the entity is unable to categorize data from its universe of transactions into applicable categories or relevant business processes and the entity's posting logic in key financial systems is not always in accordance with the TFM. As a result of these challenges, the DAF WCF has not fully designed relevant account reconciliations (e.g., accounts payable, advances and prepayments, outstanding contract financing



payments), account rollforwards, or other analyses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over AP, CFP, gross costs, cash disbursement and obligations processes have had a downstream impact on other processes, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls at the installation level or other system changes that may be necessary to better support budget execution and monitoring.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

- Identify the risks that are posed to the financial statement line items, relevant assertions, general ledger accounts for these cycles. Based on the risks, DAF WCF should perform the following:
 - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within DAF WCF and third-parties) responsible for assessing the risks.
 - Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF WCF monitoring controls over the procedures and controls performed by the third-party service organizations.
- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.



- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments/outstanding contract financing payments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELD COM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.

VII. EARNED REVENUE AND ACCOUNTS RECEIVABLE

While the DAF WCF has made progress in remediating deficiencies related to management's procedures in executing internal controls for the Flying Hours Revenue and Supply Revenue processes, the underlying information systems used in executing these processes have existing deficiencies in the design and operation that will need to be remediated in order for the process to be determined to be effective. The following deficiencies aggregate into this material weakness:

(a) Incorrect application of the percentage of completion revenue recognition method for maintenance revenue

The DAF WCF recognizes revenue for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF is incorrectly applying the percentage of completion calculation per SFFAS 7, *Accounting for Revenue and Other Financing Sources*. Currently, the DAF WCF does not have a system in place to routinely monitor and update total estimated costs of a project, and therefore, is recognizing revenue as a percentage of the initial estimated costs of the project rather than actual costs. By not identifying and monitoring projects where the total cost incurred will exceed (or not meet) the amount of costs initially estimated, the DAF WCF is incorrectly matching revenues to expenses in the reporting period.

(b) Inability to support invoice level accounts receivable subledgers

We identified that the DAF WCF is unable to provide an accounts receivable subsidiary ledger at the invoice level which reconciles to the general ledger.

**Recommendations:**

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

- Develop policies and procedures to properly apply the percent of completion guidance as outlined in SFFAS 7.
- Implement a process to continually estimate and document the total cost of the maintenance project throughout the life of the maintenance project.
- Update the maintenance revenue recognition calculation to include a calculation for a proportionate amount of estimated losses each period.
- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

Significant Deficiency**VIII. GENERAL PROPERTY, PLANT AND EQUIPMENT (GPP&E)**

The DAF WCF did not consistently execute internal controls for a majority of the year to ensure GPP&E balances (additions, disposals, or impairments) were completely and accurately reflected within the financial statements. Certain detect controls within the GPP&E process were effectively designed and operating during the year; however, other controls within the GPP&E process implemented during the year were not effectively designed and executed for a majority of the year in order to allow EY to form conclusions on whether the control activity remediates the Significant Deficiency. In addition, the fact that the DAF WCF has not completed the process of evaluating the effects that will result from adopting SFFAS 50 to the beginning balance of GPP&E is not considered in this significant deficiency. Rather, it is considered separately within the Entity Level Controls material weakness.

Recommendations:

EY recommends that the DAF WCF consider the following corrective actions related to the conditions described above:

- Design control activities which prevent the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.



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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Secretary of the Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2024, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and our report dated November 8, 2024 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section indicating that the entity has not followed and also has not implemented certain accounting standards. The effect of these matters on the DAF WCF’s financial statements as of and for the year ended September 30, 2024 is not currently determinable by the DAF WCF and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the DAF WCF’s compliance with certain provisions of laws, regulations, contracts and grant agreements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, as well as instances of noncompliance in which the DAF WCF’s financial management systems did not substantially comply with the Section 803(a) requirements of FFMIA and which are described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.



Our Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 8, 2024 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

FFMIA

Under FFMIA, we are required to report whether the DAF WCF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF WCF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2024 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or Appendix D to OMB Circular A-123 – *Management of Financial Management Systems – Risk and Compliance*.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF WCF from being compliant with federal financial management system requirements and inhibit the DAF WCF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2024 DAF WCF Statement of Assurance and Note 1 to the financial statements, the DAF WCF identified that the financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.



(c) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 2024 DAF WCF Statement of Assurance, the DAF WCF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF WCF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided the FY 2024 Statement of Assurance and as reported in the Report of Independent Auditors on Internal Control over Financial Reporting certain aspects related to entity level controls have not been fully identified, implemented, or operating effectively. Based on the evidence received, EY assessed that the DAF WCF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF WCF has not fully evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 8, 2024. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 on our consideration of the DAF WCF's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 8, 2024



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

8 November 2024

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force has reviewed the Independent Auditor Report prepared for the Fiscal Year 2024 Working Capital Fund financial statements and acknowledges and concurs with your issuance of a disclaimer of opinion. We appreciate your insights and constructive feedback regarding the audit findings, which are included in your reports on *Internal Control Over Financial Reporting and Compliance and Other Matters*. The Department of the Air Force remains committed to improving our financial practices and business systems and will continue to leverage your recommendations and apply lessons learned to bolster our remediation strategy and enhance our internal control environment.

At the completion of our seventh full financial statement audit, the Department of the Air Force remains a leading example among the Military Services in identifying risks and developing solutions that address some of most complex deficiencies. By leveraging the financial improvement metrics and insights produced by our enhanced Integrated Master Schedules, which were used in more than 100 executive meetings and forums in Fiscal Year 2024, our leadership has been able to make quick, informed decisions to flex support to the critical areas that need the most attention. This heightened level of rapid decision-making is a key reason supporting our ability to achieve our audit objectives and milestones and remain among the top Departments and Defense Agencies in the annual congressional *Report on the Rankings of the Auditability of the Financial Statements*.

A contributing factor to the DAF's rise and stay atop the congressional rankings is our continued efforts to align remediation activities with the Secretary of Defense's audit priority areas. Our teams worked hard to position the Fund Balance with Treasury material weakness for a successful downgrade this fiscal year. We addressed several challenges including: delineating transactions between the DAF and U.S. Transportation Command, performing monthly reviews of material fluctuations, and resolving configuration management of Advana scripts, a key compensating control critical to supporting our overall remediation efforts. Securing this downgrade would not only put the Department of the Air Force in the unique position of being among the first Military Services to close the Fund Balance with Treasury material weaknesses for both the Working Capital and General Funds but will improve transparency with Congress and American taxpayers on how the Department of the Air Force spends its appropriated funds.

In addition, we are working to close the security gaps posed by our large population of systems, some of which were neither designed nor developed to meet underlying cyber and financial requirements. By implementing cybersecurity capabilities (e.g., Identity, Credential, and Access Management [ICAM], Security Information and Event Management [SIEM]; and Configuration Management Database [CMDB]) for our financial and financial feeder systems, we will enhance our cybersecurity risk posture while addressing Information Technology Notices of Findings and Recommendations.

The annual financial statement audit continues to heavily influence our efforts to improve our business processes and systems, as well as the quality and timeliness of our data. We are excited for the meaningful changes that have and will continue to come about as a result of this annual examination. Thank you for your partnership this past fiscal year. We look forward to collaborating further with you on the audit journey.

Sincerely,



Carlos Rodgers, SES, DAF
(Acting) Assistant Secretary of the Air Force
(Financial Management and Comptroller)



OTHER INFORMATION

A United Launch Alliance's Atlas V rocket supporting the USSF-51, a classified National Security Space Launch mission, launches from Space Launch Complex 41 at Cape Canaveral Space Force Station, FL. This was Atlas V's 53rd and final launch for the USSF.
—USSF photo by Joshua Conti

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The DAF management has a fiduciary responsibility to develop and maintain effective internal controls to ensure that its federal resources are used effectively, and its programs operate efficiently to achieve the mission. Managers throughout the DAF are accountable for ensuring effective internal controls in their areas of responsibility.

Table 1 lists the 15 material weaknesses identified by the Independent Public Accountant (IPA) during the DAF's financial statement audit.

TABLE 1: Fiscal Year 2024 Summary of Financial Statement Audit

AUDIT OPINION: DISCLAIMERS OF OPINION (DAF GF & DAF WCF)							
RESTATEMENT: YES (DAF GF), NO (DAF WCF)							
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE	DAF GF	DAF WCF
Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments	2				2	1	1
Earned Revenue and Accounts Receivable	1				1		1
Entity Level Controls	2				2	1	1
Financial Information Systems	2				2	1	1
Fund Balance with Treasury	1		(1)*		0		
Integration and Reconciliation of Financial Systems	2				2	1	1
Inventory Held by DAF WCF	1				1		1
Inventory Held by Others	1				1		1
Military Equipment	1		(1)*		0		
Operating Materials and Supplies	1				1	1	
Other General Equipment	1				1	1	
Property and Materials Held by Others	1				1	1	
Real Property	1				1	1	
Total Material Weaknesses	17	0	(2)	0	15	8	7

* Resolved in this instance represents material weaknesses that have been closed in the current year.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required, DAF Managers establish and assess internal control over financial reporting, operations, and financial management systems. Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Office of Management and Budget Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Assessments of internal controls fall into one of the following categories:

- » FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting*,
- » FMFIA Section 2, *Effectiveness of Internal Control over Operations*, or
- » FMFIA Section 4, *Compliance with Federal Financial Management Systems Requirements*.

Table 2 provides those areas where material weaknesses were identified by the DAF in the above categories and where remediation work continues. In addition, it includes the status of compliance with Section 803(A) of the FFMIA. DAF Management believes that the listing of the DAF-identified material weaknesses encompasses all material weaknesses also identified by the IPA for internal control over reporting and internal control over financial systems. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the issuance of the Statement of Assurance and the date of the Auditor's Report. These timing differences do not change the conclusions reached by both the DAF and the IPA.

TABLE 2: Fiscal Year 2024 Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA Section 2)						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Accounts Payable, Expenses, and Accounting for Contract Financing Payments (DAF GF)	1					1
Entity Level Controls (DAF GF)	1					1
Fund Balance with Treasury (DAF GF)	1		(1)			0
Integration and Reconciliation of Financial Systems (DAF GF)	1					1
Military Equipment (DAF GF)	1					1
Operating Materials and Supplies (DAF GF)	1					1
Other General Equipment (DAF GF)	1					1
Property and Materials Held by Others (DAF GF)	1					1
Real Property (DAF GF)	1					1
Accounts Payable, Gross Costs and Contract Financing Payments (DAF WCF)	1					1
Earned Revenue and Accounts Receivable (DAF WCF)	1					1
Entity Level Controls (DAF WCF)	1					1
Fund Balance with Treasury (DAF WCF)	1					1

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING <i>(FMFIA Section 2)</i>						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Integration and Reconciliation of Financial Systems (DAF WCF)	1					1
Inventory Held by the Department of the Air Force Working Capital Fund (DAF WCF)	1					1
Inventory Held by Others (DAF WCF)	1					1
Total Material Weaknesses	16	0	(1)	0	0	15



Airmen from the 741st Missile Security Forces Squadron (MSFS) defend a forward operating base during an exercise at Fort William Henry Harrison, MT. During the exercise, the 741 MSFS Airmen focused on four core areas of base defense: forward operating base operations, close-quarters combat, dismounted operations, and mounted operations. —USAF photo by Senior Airman Breanna Christopher Volkmar

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA Section 2)						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Civil Engineer Control Systems Cyber Hygiene	1					1
Consumable Parts Disposal	1		(1)*			0
Contracting Officer Representatives	1					1
Criminal History Data Reporting Requirements	1					1
Cybersecurity of Automatic Test Systems and Equipment	1					1
Cybersecurity of Network Component Purchases	1					1
Foreign Government Employment	1		(1)			0
Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	1					1
Marketing and Recruiting Programs	1		(1)			0
Protection of Sensitive Information on the Network	1					1
Special Access Programs Report #1		1				1
Secure Internet Protocol Router Network Access Controls	1					1
Weapon System Cyber Hygiene	1					1
Total Material Weaknesses	12	1	(3)	0	0	10

* Resolved in this instance represents material weaknesses that were downgraded to a significant deficiency in the current year.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS <i>(FMFIA Section 4)</i>						
STATEMENT OF ASSURANCE: FEDERAL SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS						
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Information Systems (DAF GF)	1					1
Financial Information Systems (DAF WCF)	1					1
Total Non-Conformances	2	0	0	0	0	2

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT		
	AGENCY	AUDITOR
Federal Financial Management System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
Applicable Federal Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
United States Standard General Ledger at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted



Lt. Gen. David Miller Jr., commander, Space Operations Command (SpOC), is given a live demonstration from the 460th Security Forces Squadron on Buckley Space Force Base, CO. During Miller's first visit to Buckley as the SpOC commander, he learned about the capabilities and limitations in effectively generating and fielding combat-ready forces of Space Base Delta 2, leading as a service force provider, and proactively engaging as a combat forces proponent. —USSF photo by Senior Airman Madelyn Star Yopez



The Wings of Blue, the USAF Academy's cadet parachute team, prepares to approach Steelman Field prior to the USAFA's graduation parade, in Colorado Springs, CO. The Wings of Blue has a demonstration team and a competition team. The demonstration team travels across the country to airshows, sporting events and other venues to represent the Air Force in precision parachuting. The competition team represents the Air Force by competing with teams from around the country in 6-way speed formations, 4-way relative work, 2-way free fly, and sport accuracy. —USAF photo by Justin R. Pacheco

BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* and the Office of Management and Budget Circular Number A-25, *User Charges*, requires biennial reviews of agency fees and other charges imposed by the agency for services or special benefits derived from federal activities beyond those received by the general public. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. The DAF performed a review of user fees in FY 2024 and identified immaterial adjustments to account for changes in market conditions. The DAF will conduct the next review in FY 2026.



(from left) USAF Senior Airman Blake Narrell, Staff Sgt. Christian Flores, Senior Airman Djei Dorgilus and Senior Airman Ian Aguilar, Security Forces members at the 6th Space Warning Squadron (6 SWS), pose in front of the Upgraded Early Warning Radar facility at Cape Cod Space Force Station, MA. 6 SWS, located at Cape Cod Space Force Station in Sagamore, MA, is a geographically separated unit of Space Delta 4, Buckley Space Force Base, CO. "Team 6" includes USSF Guardians, USAF and Royal Canadian Air Force Airmen, and civilian employees. Their mission is "To surveil air and space to detect missile launches and high-interest satellites while operating, maintaining, and protecting New England's first Space Force installation." —USSF photo by Dave Grim

CLIMATE-RELATED FINANCIAL RISK

Environmental stresses, such as changing climate and weather patterns and extreme weather events, are increasing in frequency and strength and can adversely impact the DAF's operational plans, military infrastructure, and personnel readiness. Natural disasters can jeopardize military installations due to increased temperatures, recurrent flooding, drought, land degradation, desertification, and wildfires, thereby limiting the DAF's ability to utilize bases for training and testing exercises. Climate change challenges the DAF's ability to achieve air and space dominance because it impacts the DAF's ability to maintain operational and military readiness by limiting access and functionality of strategic locations globally, imposes significant costs, increases the demand and scope for military operations, worsens existing security risks, and threaten U.S. interests. The DAF seeks to increase resilience and improve combat capability, while reducing its own contributions to climate change. In response to evolving environmental challenges, the DAF published the [Climate Action Plan](#) and the [Climate Campaign Plan](#) in FY 2023. The climate plans detailed actionable priorities, objectives, and milestones that the DAF will pursue to mitigate the effects of climate change, thereby enhancing the DAF's ability to field a combat-credible force that can train, fight, and win in an increasingly complex strategic environment. For additional information, refer to the [Forward Looking Information](#) Section. No additional climate related reports were released in FY 2024.

Additionally, as required by Executive Order 14057, principal agencies must develop and implement an annual Sustainability Plan. The DAF provides inputs and data to support the [OSD Sustainability Plan](#). This plan summarizes actions implemented to meet sustainability goals, progress, results, cost savings, and the agency's strategies for continued progress and performance improvements.



Five F-16 Fighting Falcons assigned to the 162nd Wing, Morris Air National Guard Base, Tucson, AZ, fly in formation over southern Arizona, April 6, 2024. The 162nd Wing's F-16 fighter training program instructs, develops, and prepares U.S. and allied pilots to operate the highly maneuverable, high-performance fighter aircraft. —USAF photo by Staff Sgt. Colin Hollowell

FINANCIAL REPORTING-RELATED LEGISLATION

The Office of Management and Budget A-136, *Financial Reporting Requirements*, require agencies to report any significant agency-specific legislative provisions enacted in the prior or current year that addresses financial accounting, reporting, or auditing issues and that affected its ability to prepare its Agency Financial Report. The following Public Laws apply:

[James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. 117-263](#) & [National Defense Authorization Act for Fiscal Year 2024, Pub. L. 118-31](#)

The *National Defense Authorization Act* is an annual Act that authorizes funding levels and provides authorities for the U.S. military and other critical defense priorities.

[Making emergency supplemental appropriations for the fiscal year ending September 30, 2024 and for other purposes, Pub. L. 118-50](#)

This act provides supplemental emergency appropriations for FY 2024 to Federal Agencies to respond to the situations in Israel, Ukraine, and for assistance to U.S. allies in the Indo-Pacific region.



An airman fast-ropes out of a HH-60G Pave Hawk helicopter during exercise PR ACE Croatia 24 near Pula, Croatia. Personnel recovery is the sum of military, diplomatic, and civil efforts to prepare for and execute the recovery and reintegration of isolated personnel. —USAF Photo by Airman 1st Class Joseph Bartoszek

GLOSSARY OF ACRONYMS

ACC Air Combat Command

ADA Anti-Deficiency Act

AETC Air Education and Training Command

AFB Air Force Base

AFCEC/CZTQ Air Force Civil Engineer Center/Environmental Quality Technical Support Branch

AFDW Air Force District of Washington

AFFF Aqueous Film-Forming Foam

AFGSC Air Force Global Strike Command

AFIMSC Air Force Installation and Mission Support Center

AFMC Air Force Materiel Command

AFMEDCOM Air Force Medical Command

AFOTEC Air Force Operational Test and Evaluation Center

AFR Agency Financial Report

AFRC Air Force Reserve Command

AFSOC Air Force Special Operations Command

AFSOUTH Air Force Southern

AI Artificial Intelligence

AMC Air Mobility Command

ANG Air National Guard

APSR Accountable Property System of Record

ATF Air Task Force

BAH Basic Allowance for Housing

GLOSSARY OF ACRONYMS

BD/DR Building Demolition and Debris Removal

BP Base Possessed

BRAC Base Realignment and Closure

BS Balance Sheet

C3 Command, Control, and Communications

CAP Corrective Action Plan

CBY Charge-Back Year

CERCLA Comprehensive Environmental Response, Compensation, and Liability Act

C-FLDCOM Component Field Command

CFP Contract Financing Payments

C-ICP Contractor-Inventory Control Point

CIP Construction-in-Progress

CLL Contingent Legal Liabilities

CMDB Configuration Management Database

COLA Cost of Living Adjustment

CPI Consumer Price Index

CPI-M Consumer Price Index Medical

CRF Convoy Response Force

CSAF Chief of Staff of the Air Force

CSAG Consolidated Sustainment Activity Group

CSO Chief of Space Operations

CTC Cost-to-Complete

GLOSSARY OF ACRONYMS

DAF Department of the Air Force

DAF GF Department of the Air Force General Fund

DAF WCF Department of the Air Force Working Capital Fund

DAFI Department of the Air Force Instruction

DERP Defense Environmental Restoration Program

DFAS Defense Finance and Accounting Service

DM&R Deferred Maintenance and Repair

DMM Digital Materiel Management

DoD Department of Defense

DOL Department of Labor

DRU Direct Reporting Unit

E&DL Environmental and Disposal Liabilities

ECA Environmental Corrective Action

ECR Environmental Closure Requirements

eGRC Enterprise Governance, Risk, and Compliance

EI&E Energy, Installations, and Environment

EISP End Item Sales Price

EO Executive Order

EOP Executive Office of the President

EOU Excess, Obsolete, Unserviceable

EPA Environmental Protection Agency

EROR Environmental Response at Operational Ranges

GLOSSARY OF ACRONYMS

ESC Executive Steering Committee

EWS Electronic Warfare Squadrons

FAR Federal Acquisition Regulation

FARP Forward Area Refueling Point

FASAB Federal Accounting Standards Advisory Board

FBwT Fund Balance with Treasury

FECA Federal Employees' Compensation Act

FFMIA Federal Financial Management Improvement Act of 1996

FHIF Family Housing Improvement Fund

FIAR Financial Improvement and Audit Remediation

FISCAM Federal Information Systems Control Audit Manual

FLDCOM Field Command

FM Financial Management

FMFIA Federal Managers' Financial Integrity Act of 1982

FMR Financial Management Regulation

FOA Field Operating Agency

FROC Fraud Risk Oversight Committee

FY Fiscal Year

FYE Fiscal Year End

GAAP Generally Accepted Accounting Principles

GDL Government Direct Loan

GE General Equipment

GLOSSARY OF ACRONYMS

GenAI Generative Artificial Intelligence

GFE Government-Furnished Equipment

G-Invoicing Government Invoicing

GPS Global Positioning System

GSD General Support Division

HEAT Hispanic Empowerment and Advancement Team

HFPO-DA Hexafluoropropylene Oxide Dimer Acid

I&RP Inventory and Related Property

IAC Internal Administrative Claims

ICAM Identity, Credential, and Access Management

ICBM Intercontinental Ballistic Missile

IMD Integrated Mission Deltas

IPA Independent Public Accountant

IRP Installation Restoration Program

ISR Intelligence, Surveillance, and Reconnaissance

IT Information Technology

IUS Internal Use Software

JCS Joint Chiefs of Staff

JNWC Joint Navigation Warfare Center

JSF Joint Striker Fighter

JTAGS Joint Tactical Ground Station

JTF Joint Task Force

GLOSSARY OF ACRONYMS

LAC Latest Acquisition Cost

LLC Limited Liability Company

LOP Lease of Property

LP Limited Partnership

LRC Latest Repair Cost

MAC Moving Average Cost

MAJCOM Major Command

MC Munitions Constituents

MDMA Master Development and Management Agreement

MEWP Military Equipment/Weapons Program

MHPI Military Housing Privatization Initiative

MILCON Military Construction

MILPERS Military Personnel

MM Minutemen

MMRP Military Munitions Response Program

MOCAS Mechanization of Contract Administration Services

MPC Mission Planning Cell

MRAP Mine-Resistant Ambush Protected

MSFS Missile Security Forces Squadron

MUNS Munitions

NASA National Aeronautics and Space Administration

NATO North Atlantic Treaty Organization

GLOSSARY OF ACRONYMS

NCR National Capital Region

NDAA National Defense Authorization Act

NFR Notice of Findings and Recommendations

NGAD Next Generation Air Dominance

NHPA National Historic Preservation Act

NMUSAF National Museum of the United States Air Force

No. Number

NRHP National Register of Historic Places

NRV Net Realizable Value

NTDO Non-Treasury Disbursing Office

OA Operating Agreement

OASD Office of the Assistant Secretary of Defense

OCFP Outstanding Contract Financing Payments

OEL Other Environmental Liabilities

OET Other Eligible Tenant

OGE Other General Equipment

OM&S Operating Materials and Supplies

OMB Office of Management and Budget

OPM Office of Personnel Management

OSD Office of the Secretary of Defense

OWS Oil Water Separators

P3 Public-Private Partnership

GLOSSARY OF ACRONYMS

PACAF	Pacific Air Forces
PFAS	Per- and Polyfluoroalkyl Substances
PFHxS	Perfluorohexanesulfonic Acid
PFNA	Perfluorononanoic Acid
PFOA	Perfluorooctanoic Acid
PFOS	Perfluorooctanesulfonic Acid
PIF	Performance Incentive Fee
PIP	Performance Incentive Plan
POM	Program Objective Memorandum
PP&E	Property, Plant, & Equipment
PPT	Parts-Per-Trillion
PRV	Plant Replacement Value
PUC	Plant Unit Cost
PV/BV	Prairie Vigilance/Bayou Vigilance
Q	Quarter
RAAF	Royal Australian Air Force
RACER	Remedial Action Cost Engineering and Requirements
RAF	Royal Air Force
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RI/FS	Remedial Investigation/Feasibility Study
RMC	Risk Management Council

GLOSSARY OF ACRONYMS

RPA Robotic Process Automation

RSI Required Supplementary Information

SAT Senior Assessment Team

SBR Statement of Budgetary Resources

SCNP Statement of Changes in Net Position

SDA Space Development Agency

SDP Savings Deposit Program

SE Spare Engines

SecAF Secretary of the Air Force

SES Senior Executive Service

SFFAS Statement of Federal Financial Accounting Standards

SIEM Security Information and Event Management

SMAG-R Supply Management Activity Group - Retail

SMC Senior Management Council

SME Subject Matter Experts

SMS Sustainment Management Systems

SNC Statement of Net Cost

SOF Special Operations Forces

SOPS Space Operations Squadron

Space RCO Space Rapid Capabilities Office

SpOC Space Operations Command

SSC Space Systems Command

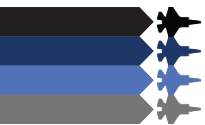
GLOSSARY OF ACRONYMS

STARCOM	Space Training and Readiness Command
SWS	Space Warning Squadron
TDO	Treasury Disbursing Office
TFM	Treasury Financial Manual
TICMS	Theater Integrated Combat Munitions System
TNC	Treasury Nominal Coupon
U.S.	United States
U.S.C.	U.S. Code
UDC	User Defined Costs
UFC	Unified Facilities Criteria
UMM	Uninstalled Missile Motors
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USAFA	United States Air Force Academy
USAFE-AFAFRICA	United States Air Forces in Europe – Air Forces Africa
USAFRICOM	United States Africa Command
USEUCOM	United States European Command
USSF	United States Space Force
USSGL	United States Standard General Ledger
USTRANSCOM	United States Transportation Command
VENOM-AFT	Viper Experimentation and Next-gen Operations Model – Autonomy Flying Testbed
VISTA	Variable In-flight Simulation Test Aircraft

GLOSSARY OF ACRONYMS

WRM War Reserve Materiel

WSS Weapon System Sustainment



COVER CREDITS



Maj. Nathan Persons and Capt. Annie Braun, weapon systems officers assigned to the 366th Fighter Wing, Mountain Home Air Force Base, ID, depart an F-15E Strike Eagle after finishing an exercise Red Flag-Nellis 24-2 mission at Nellis AFB, NV. Red Flag exercises provide aircrews the experience of multiple, intensive air combat sorties in the safety of a training environment. —USAF photo by William R. Lewis

FRONT COVER

Top to bottom:

The USAF Air Demonstration Squadron “Thunderbirds” F-16 Fighting Falcons fly over the Gulf of Mexico during the 2024 Gulf Coast Salute Air Show in Panama City Beach, FL. The Thunderbirds perform for people all around the world to display the pride, precision, and professionalism the USAF represents. —USAF photo by Staff Sgt. Stefan Alvarez

A SpaceX Falcon Heavy rocket is prepared for launch prior to USSF-52 carrying a USSF X-37B Orbital Test Vehicle from Kennedy Space Center Launch Complex 39A. —USSF Force photo

Airman Gabriel Farey receives the Airman’s Coin from Staff Sgt. Phillip Thompson, military training instructor, during the USAF basic military training Coin and Retreat Ceremony at the Pfingston Reception Center at Joint Base San Antonio-Lackland, TX. The coin officially marks the transition from trainee to Airman and welcomes the newest members of the USAF into its ranks. —USAF photo by 2nd Lt. Kate Anderson

BACK COVER

Top to bottom:

A Delta IV Heavy rocket launches from Space Launch Complex 37 (SLC-37) at Cape Canaveral Space Force Station, FL. This mission will mark the 16th and final mission of a Delta IV Heavy. —USSF photo by DeAnna Murano

A USAF B-1B Lancer assigned to the 37th Bomb Squadron prepares for takeoff during exercise Red Flag 24-3 at Nellis Air Force Base, NV. Red Flag builds partnerships and interoperability among U.S. allies and partners and across domains that are vital to advancing American interests and security. —USAF photo by Airman 1st Class Brittany Kenney



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