

# United States Air Force Agency Financial Report 2015





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November 2015

**Message from the Secretary of the Air Force**



Although we operated in a difficult fiscal environment in FY 2015, our total force Airmen expertly confronted all of the challenges placed before them. The Air Force executed nearly 70 percent of the air strikes and flew more than 48,000 sorties supporting operations in Iraq and Syria. During the last year, we responded to an Ebola outbreak in West Africa, provided humanitarian relief in Nepal, and maintained ongoing commitments in Afghanistan and in the Pacific. However, the Air Force cannot continue to meet the demands of a volatile world with a sequestration level budget. The service has lost 200,000 people over the last 20 years and is the smallest Air Force since our inception in 1947.

My first priority as secretary has always been taking care of our Airmen and their families. As I travel to bases around the world to meet with Airmen, it is quite evident that their primary concern was involuntary personnel downsizing. Our FY 2016 budget request calls for the end of personnel downsizing and, in fact, provides for a 6,600 person increase from 485,000 to 491,600 for the Active, Reserve, and Guard force. I am working to provide Airman quality of life improvements such as expanded childcare options, better fitness facilities, and tuition assistance. I am convinced that if you get the people part correct, the rest will follow. Our Airmen need to be properly trained and equipped in order to fulfill their missions.

In 2014 and 2015, we were able to invest in key readiness programs which have slowed our readiness losses during the Sequester of 2013. However, our readiness is still not sufficient. Only half of Air Force combat forces are operating at their optimal readiness levels. In FY 2016 we plan to make further investments in the nuclear enterprise; space operations; cyber capabilities and Intelligence, Surveillance, and Reconnaissance. We must be prepared to perform the full range of military operations requested by combatant commanders.

In order to prepare for the missions of tomorrow, we must modernize our infrastructure today. The average age of our aircraft is 28, the oldest that they have ever been in our history. The F-35, KC-46, and the Long Range Strike Bomber continue to be our three highest procurement priorities. For decades, the Air Force has possessed absolute control of the skies; however, other countries are investing in technology which would put American air superiority in question. We must work to ensure that the U.S. Air Force has asymmetric capabilities to dominate any contested domain.

Our goals of caring for the welfare and well-being of Airmen while undertaking efforts to improve readiness and modernization must be performed in a fiscally responsible manner. We are dedicated to making every dollar count. Although our FY 2016 budget request is \$10 billion higher than a sequestration level budget, we still had to make some very difficult decisions because even \$10 billion more is not the same as getting back the \$20 billion that we have lost during recent budget cuts. We are fully committed to being wise stewards of taxpayer dollars and have made significant progress towards publishing auditable financial statements. Our Air Force will remain dominant in Air, Space, and Cyberspace, while protecting American interests in a financially prudent manner.

My charge to our airmen – continue innovating, find new ways to increase the readiness of our force, and as always, take care of our people!

  
Deborah Lee James



**November 2015**

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



I am pleased to present the FY 2015 financial statements. The Air Force continues to operate in a challenging budget environment for the Department of Defense. During FY 2015, the AF made significant progress toward our goals of publishing auditable financial statements, deploying the Defense Enterprise Accounting and Management System (DEAMS), assessing investment costs, and improving the skillset of financial managers.

In FY 2014, the Air Force asserted that its FY 2015 Statement of Budgetary Activity (SBA) was audit-ready. The validity of this assertion is currently under review by an independent public audit firm. We've provided over 2,500 auditor-requested documents and accompanied auditors to numerous sites in support of their examination. We've also asserted to the Existence and Completeness of Air Force possessed munitions and Support General Equipment assets. We will continue to work diligently towards the congressionally mandated goal of audit readiness by the end of FY 2017.

The deployment of our enterprise resource support system, DEAMS, further advances audit readiness efforts. DEAMS is designed to manage the AF General Fund and elements of the Transportation Working Capital Fund. DEAMS achieved initial operational capability in May 2015 and deployments continue throughout the Air Force. DEAMS is successfully operating at all Air Combat Command, and Air Education and Training Command locations. In addition, DEAMS is operating at 11 Air Force Reserve Command and 33 Air National Guard units. DEAMS now has 6,200 users.

Our financial managers are our greatest asset in achieving audit readiness. We are fully committed to developing the expertise of our personnel to support decisions with credible budgetary and financial information. Over 3,000 Air Force financial managers have earned their DoD FM Certification, which provides a force multiplying impact as the AF maximizes scarce financial resources toward combat effectiveness.

As we look back at the many accomplishments achieved during FY 2015, we're also preparing for a challenging and successful 2016.

Lisa S. Disbrow

## Air Force Vision

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

## Air Force Mission

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

# Management Discussion and Analysis

## Air Force Heritage

### 70<sup>th</sup> Anniversary of the Conclusion of World War II



The Air Force is observing the 70<sup>th</sup> anniversary of the conclusion of World War II. The Army Air Forces (AAF) played a significant role in bringing about victory in both the European Theater of Operations and in the Pacific. In September 1939, when Germany commenced World War II in Europe with its invasion of Poland, the Army Air Corps had 26,000 personnel and fewer than 2,000 aircraft. In June 1941, the Department of War created the Army Air Forces and in March 1942 the AAF became one of the three autonomous commands into which the Army was divided (The Army Ground Forces and the Services of Supply were the other two commands). At its peak strength in March 1944, the AAF had 2.4 million Airmen which represented 31 percent of U.S. Army forces. In addition, the AAF employed 422,000 civilians. AAF personnel stationed overseas reached 1,224,000 in April 1945 with 610,000 deployed against Germany, 440,000 against Japan and the remainder assigned to air transport duties at various locations around the globe.

By V-J Day, the AAF had taken delivery of 158,880 airplanes, including 51,221 bombers and 47,050 fighters. The maximum aircraft strength at any one time was 79,900 which was achieved in July 1944. The combat air forces dropped 2,057,000 tons of

bombs on enemy targets, 75 percent of it against Germany and fired 459,750,000 rounds of ammunition. Nearly 2.4 million combat missions were flown, 1.7 million of which were flown against Germany. Personnel casualties of 122,000 included 40,000 killed in action and aircraft combat losses totaled 23,000 planes. The monetary cost of this effort was \$38.345 billion, over 10 percent of the total direct costs of the war.

By the last year of the war, strategic bombing campaigns had destroyed the war economies of Germany and Japan. The war was culminated by the dropping of two atomic bombs on Japan. After the war, the Army Air Forces were demobilized and the number of personnel and aircraft were greatly reduced. In September 1947, in recognition of the prominent role air power would play in the atomic age, the Department of the Air Force was created and the Air Force became an independent service.



## Air Force Core Missions

The mission of the United States Air Force is to fly, fight and win in air, space and cyberspace. This mission can be divided into five responsibilities:

**Air and Space Superiority:** Air superiority has provided our Nation with a decades-long asymmetric advantage. General Jimmy Doolittle said, "The first lesson is that you can't lose a war if you have command of the air, and you can't win a war if you haven't." Air superiority allows the U.S. and its allies the freedom to operate in contested environments by protecting the Joint Forces' ability to attack as well as protect the Joint Force from attack. Not since April 15, 1953, has an enemy combat aircraft killed a service member in the American ground forces.



Space continues to be a contested environment. As more commercial and government entities take advantage of space, the Air Force remains committed to improving space situational awareness. Space superiority is critical to U.S. national defense. Every day over 15,000 Airmen work to ensure space superiority. For example, the Global Positioning System (GPS) enables precision guided munitions employment by all services minimizing collateral damage. Air Force military satellite communications systems, including Advanced Extremely High Frequency and Wideband Global SATCOM satellites, provide wideband and protected communications to deployed forces. This provides the command and control needed by joint force commanders around the world.

**Intelligence, Surveillance, and Reconnaissance**

**(ISR):** Air Force ISR is about helping leaders make informed decisions to maintain deterrence, contain crises, or achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information; Air Force ISR gives policymakers the ability to minimize uncertainty about our adversaries and their capabilities. Air Force ISR provides information to decision makers through five core capabilities: Battlespace characterization; collection operations to find, fix and track; targeting; production of intelligence mission data; and intelligence support to weapon system design and acquisition. Our 34,000 ISR Airmen identify and assess adversary targets and vulnerabilities from hideouts to bunkers to mobile launchers with greater accuracy than ever seen in the history of warfare.

**Rapid Global Mobility:** The Air Force's air mobility Airmen provide swift deployment and the ability to sustain operations by delivering essential equipment and personnel for missions ranging from major combat to humanitarian relief operations around the world. Airlifters provide the capability to deploy American armed forces anywhere in the world and keep them supplied. Air refuelers are the lifeline of global reach, increasing range, payloads and flexibility. Air Force tankers can also refuel Navy, Marine and NATO aircraft and have an inherent cargo-carrying capability.

The Air Force is saving lives with unprecedented survival rates because our highly skilled aeromedical transport teams swiftly evacuate

combat casualties. The Air Force's ability to evacuate wounded troops promptly from the battlefield to emergency rear-area field hospitals and the first-response medical aid provided enroute by pararescue forces or critical care air transport teams have set a new standard for the survival of wounded warriors. Servicemen and women who likely would not have survived in past conflicts now return home to their families.

**Global Strike:** The Air Force's nuclear and conventional precision strike forces can credibly threaten and effectively conduct global strike by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases in the continental United States. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in the course of 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, and targeting an adversary's vital centers.

Strengthening the nuclear enterprise remains the number one mission priority within the Air Force. The Air Force continues its actions to deliver safe, secure, and effective nuclear capabilities within its Nuclear Deterrence Operations (NDO) portfolio. The Air Force's intercontinental ballistic missiles and heavy bombers provide two legs of the Nation's nuclear TRIAD. Dual-capable fighters and bombers extend deterrence and provide assurance to allies and partners. The Air Force continues its efforts to further the skills and leadership of its NDO-Airmen, institutionalize improvements and capitalize on gains made since the Air Force began reinvigorating the nuclear enterprise in 2008.

**Command and Control:** The Air Force provides access to reliable communications and information networks so that the joint team can operate globally at a high tempo and level of intensity. Air Force command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequalled scale using centralized command, distributed control, and decentralized execution.

The capability to deliver airpower is intimately dependent on the ability to operate effectively in cyberspace, a domain in and through which we conduct all of our core missions and which is critical



to many of our command and control systems. Operations in cyberspace can magnify military effects by increasing the efficiency and effectiveness of air and space operations and by helping to integrate capabilities across all domains.

## Air Force in Action--FY 2015

### Operational Tempo

The Air Force is active in the fight against the Islamic State of Iraq and the Levant (ISIL). We executed nearly 70 percent of the air strikes and flew more than 48,000 sorties supporting operations in Iraq and Syria. The U.S. is now one year into Operation Inherent Resolve. The Air Force is committed to a multi-year fight requiring political, economic, and military actions. We've made good progress with our strategy of deny, disrupt, and ultimately defeat. American airpower has denied ISIL advances and has completely disrupted their tactics, techniques, and procedures.

During the last year, the Air Force responded to an Ebola outbreak in West Africa, provided humanitarian relief in Nepal, and maintained ongoing commitments in Afghanistan and in the Pacific. The Air Force announced an upcoming training exercise that will involve an F-22 Raptor deployment to Europe giving allies the opportunity to train and operate in multiple types of scenarios.

### Nuclear Enterprise Management

Proper management of the nuclear enterprise remains the Air Force's top priority. The Air Force recently elevated the Air Force Global Strike Command (AFGSC) position from a three-star general position to a four-star general position. In addition, the billet of Assistant Chief of Staff for strategic deterrence and nuclear integration will be increased from a two-star billet to a three-star billet. The Air Force is increasing manning levels by 1,100 Airmen to provide more stable schedules for those Airmen performing alert duty.

During FY 2015, the AFGSC established the School for Advanced Nuclear Deterrence Studies (SANDS). AFGSC officers, civilians, and joint officers will complete a master's degree in operations management from the Air Force Institute of Technology. Students will also take classes in research design, operations management, leadership, and weapons effects. The curriculum is designed to increase nuclear deterrence and assurance skills.

### Airmen Diversity

In March of this year, Secretary James outlined nine proposals to increase opportunities for women, minorities and enlisted Airmen. The junior enlisted force is diverse but the percentage of women and minorities in senior noncommissioned officer ranks has declined. Officers and civilians also have declining representation of women and minorities in the senior ranks and women leave the service at twice the rate of men during the middle of their careers.

The Secretary plans to change the Air Force's rules so new mothers will have a full 12 months at home before being deployed. The Post-Pregnancy Deployment Deferment is now six months. Commanders have the ability to increase the six-month deferment on a case-by-case basis; however, the Secretary is advocating for a standard 12-month period. The Secretary is also calling for increased Officer Training School slots for enlisted personnel and the waiver of height restrictions for flight training candidates.

### Cybersecurity

In March 2015, Air Force Chief of Staff General Mark Welch established the Task Force Cyber Secure. The task force functions to protect the Air Force and those organizations that support the Air Force from cyber-attack. The task force has three principle objectives:

- Identify cyber threats that could undermine core Air Force missions
- Develop plans to mitigate cyber threats
- Make recommendations for investment priorities to counter cyber threats

The task force will work to synchronize and maximize resources at the corporate level in order to establish a foundational, consistent enterprise-wide approach in the future

### Acquisition Excellence

The Air Force continues to prioritize three acquisition programs: the F-35 Lightning, the KC-46A Pegasus, and the long-range strike bomber. The Air Force is focused on reducing the per unit cost of the F-35. The deployment of the F-35 has been somewhat difficult because the aircraft was simultaneously designed and built and has 24 million lines of software code. Despite these challenges, the F-35 has met many milestones. The F-35 has flown over 30,000 flight hours and

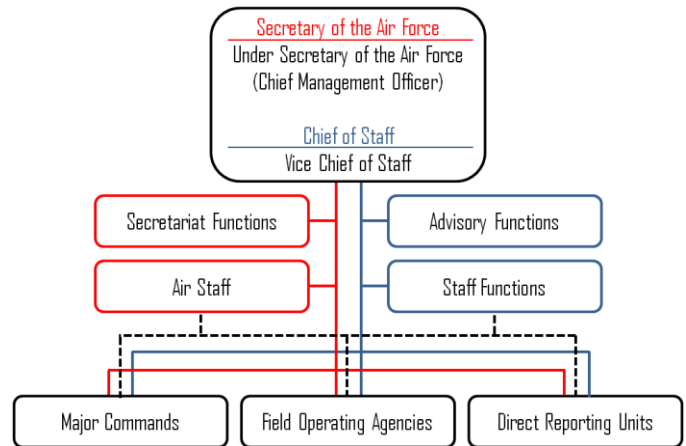
completed 65 percent of its test program. Two hundred pilots and 1,800 maintainers have been trained. The F-35 program supports 129,000 jobs in 45 states and Puerto Rico.

The Air Force will soon award the contract for the Long-Range Strike Bomber. The average age of the bomber force is now 39 years. The Long-Range Strike Bomber will replace the B-52 and the B-1. The B-52 was designed in the late 1940s and first built in the early 1960s. The B-1 was deployed in the 1980s. “The idea that we would run a Formula One or a NASCAR race with a car built in 1962 is ridiculous, but we’re going to war with airplanes built in 1962,” Air Force Chief of Staff Gen. Mark Welsh said “We have got to modernize the Air Force. The bomber will be deployed in the mid-2020s.

Boeing is obligated to deliver 18 KC-46A Pegasus aircraft by August 2017. The Pegasus is primarily designed to conduct mid-air refueling, but can also transport passengers, patients, and cargo. The aircraft is designed to not only refuel U.S. aircraft, but coalition aircraft as well. These advanced aircraft will help the U.S. maintain air superiority, perform precision strike missions, and extend global reach for many years to come.

## Air Force Structure

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



### Major Command Structure

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

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

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



Paratroopers jump from a C-130



An F-22 Raptor flies over Virginia

### Air Combat Command (ACC)



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

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

As a force provider and Combat Air Forces lead agent, ACC organizes, trains, equips and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. Additionally, ACC develops strategy, doctrine, concepts, tactics, and procedures for air and space-power employment. The command provides conventional and information warfare forces to all unified commands to ensure air, space and information superiority for warfighters and national decision-makers. The Command also has responsibility for inland search and rescue operations in the 48 contiguous states. ACC numbered air forces provide the air component to the Central, Southern and Northern Combatant Commands. ACC also augments forces to the European, Pacific, and Strategic Combatant Commands.

**Command Personnel:** 143,000

### Air Education and Training Command (AETC)



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

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



A UH-60 Blackhawk takes off at Canyon Lake, Texas

**Command Personnel:** 62,000

### Air Force Global Strike Command (AFGSC)



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

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

**Command Personnel:** 31,000

### Air Force Materiel Command (AFMC)



**Mission:** Deliver and support agile war-winning capabilities.

**Responsibilities:** AFMC delivers war-winning expeditionary capabilities to



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

**Command Personnel:** 80,000

### Air Force Reserve Command (AFRC)



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

**Responsibilities:** The AFRC augments the active component. The

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

**Command Personnel:** 67,100



An F-35A Lightning II from Luke AFB breaks hard left

### Air Force Space Command (AFSPC)



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

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

**Command Personnel:** 38,000



An Atlas V rocket carrying an MOUS-4 satellite lifts off from Cape Canaveral

### Air Mobility Command (AMC)



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

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



in providing humanitarian support at home and around the world.

**Command Personnel:** 93,350

### Air National Guard (ANG)



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

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

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

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

**Command Personnel:** 105,000

### Pacific Air Forces (PACAF)



**Mission:** Provide Pacific Command integrated expeditionary Air Force capabilities to defend the homeland, promise stability, dissuade/deter aggression, and swiftly defeat enemies.

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

**Command Personnel:** 46,000



An F-35 applies the afterburner

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



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

**Responsibilities:** USAFE-AFAFRICA directs air operations in a theater spanning three continents, covering more than 19 million square miles, containing 105 independent states, and possessing more than a quarter of the world's population and more than a quarter of the world's Gross Domestic

Product. USAFE-AFAFRICA has transitioned to an Air Expeditionary Force with a mobile and deployable mix of people and resources that can simultaneously operate in multiple locations. Its role in Europe and Africa has expanded from warfighting to include humanitarian and peacekeeping operations, as well as other non-traditional contingencies throughout its area of responsibility. In peacetime, USAFE-AFAFRICA trains and equips U.S. Air Force units pledged to the North Atlantic Treaty Organization (NATO) and to the peace and stability of African states.

**Command Personnel:** 35,100

### Air Force Special Operations Command (AFSOC)



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

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

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

**Command Personnel:** 19,500



A CV-22 Osprey takes flight over England.

### Direct Reporting Unit (DRU)

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

### Air Force Academy



**Mission:** To educate, train and inspire men and women to become officers of character, motivated to lead the United States Air Force in service to our nation.

**Responsibilities:** The United States Air Force Academy offers a four-year program of instruction and experience designed to provide cadets the knowledge and character essential for leadership, and the motivation to serve as Air Force career officers. Each cadet graduates with a Bachelor of Science degree and a commission as a second lieutenant in the Air Force.

Designed for the future, the Academy campus boasts state-of-the-art facilities, including laboratories, observatories and a library containing over 700,000 volumes. Other landmarks include the cadet chapel with its seventeen spires that soar 150 feet toward the Colorado sky. Spanning 18,000 spectacular acres nestled against the Rocky Mountains, the Academy draws thousands of visitors from around the world each year.

**Command Personnel:** 550 faculty and staff; 4,000 cadets

### Civil Air Patrol (CAP)

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



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

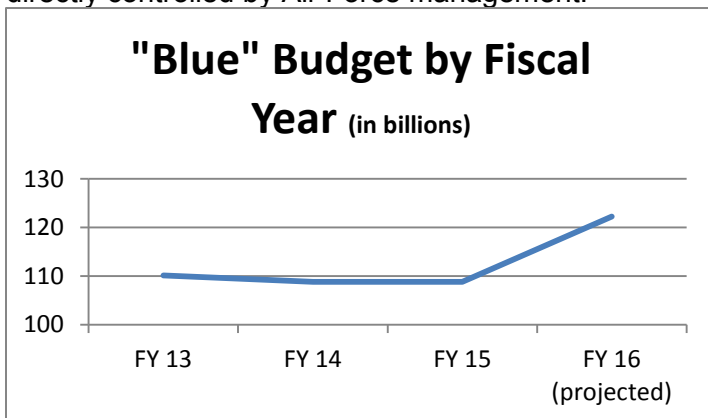
**Personnel:** 50,000

### Field Operating Agency (FOA)

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

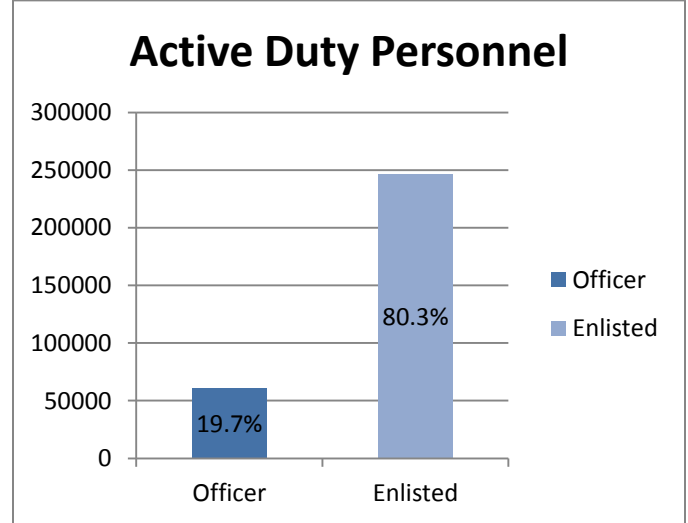
## Air Force Resources

**Budget:** The Air Force “Blue” budget are the funds directly controlled by Air Force management.



**Personnel:** The Air Force consists of 308,000 active duty, 67,100 reserve, 105,000 guard and 179,900 civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air,

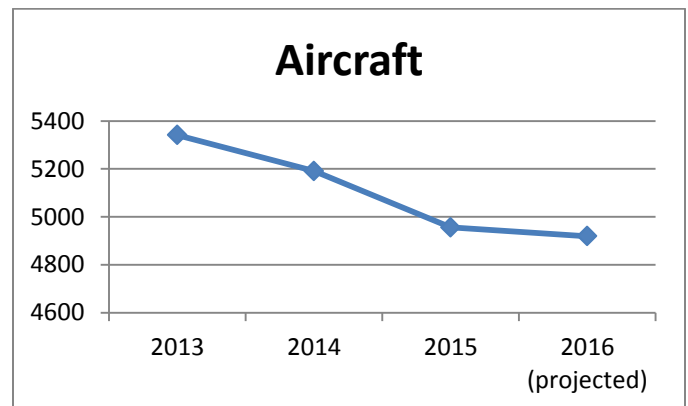
space, and cyberspace. The foundation for this is our people. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These warriors make possible the successful accomplishment of Air Force missions.



The Air Force has 12,920 pilots, 3,413 navigators and 1,443 air battle managers in the grade of lieutenant colonel and below. The Air Force has 23,966 nonrated line officers in the grade of lieutenant colonel and below.

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

**Aircraft:** The Air Force has 4,956 aircraft. Flying the most technologically advanced aircraft in the world helps us maintain air superiority, provide global mobility, and gives us precision strike capability.



## Management Assertions

### Internal Controls and Material Weaknesses

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

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

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

Internal control evaluations are performed to determine whether internal control measures are in place and operating effectively. After review, if management detects a control weakness, the cause is determined and a corrective action plan is implemented. If the weakness is deemed to be material, the progress of the corrective action to remedy the material weakness is monitored through the Air Force tracking system. This system tracks all corrective actions and identifies responsible personnel and completion dates. Tracking continues from the first report of the weakness until the weakness is resolved. The weakness is considered closed only after corrective actions are confirmed to be effective.

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

- Enterprise Information Protection Capability
- Air Force Audit Follow Up Program
- Segregation of Duties in the Defense Travel System

**Financial Reporting Material Weaknesses:** The Air Force can provide a qualified statement of reasonable assurance that internal controls over financial reporting were operating effectively, with the exception of 11 General Fund and 8 Working Capital Fund material weaknesses and 2 significant deficiencies:

### General Fund:

- Recording of Property, Plant & Equipment
- Lack of an Integrated Financial System
- Incomplete Existence and Completeness of Government Furnished Equipment
- Failure to Use Historical Cost to Value Operating Materials and Supplies
- Incomplete Reporting of Contractor Managed and Possessed Operating Materials and Supplies
- Environmental Clean-Up Costs Cannot Be Supported
- Unsupported Journal Vouchers
- Failure to Eliminate Intragovernmental Transactions
- Failure to Report Program Costs on the Statement of Net Cost
- Failure to Reconcile Net Costs to Budget
- Failure to Validate Accounts Payable Balances

### Working Capital Fund:

- Deficiencies in Air Force WCF Spending Authority from Offsetting Collections
- Air Force In-Transit Inventory Tracking
- Lack of an Integrated Financial Management System
- Inventory Not Expensed When Used by the End User
- PP&E not Recorded Using Acquisition Cost, Improvement Cost and Depreciation/GFE
- Lack of Subsidiary Ledgers
- Failure to Eliminate Intragovernmental Transactions
- Unsupported Journal Vouchers
- Deficiencies in Fund Accounts Receivable
- Deficiencies in Accounts Payable

### **Integrated Financial Management System**

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

The design of legacy Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full accrual accounting basis, provide



the necessary system access controls, or comply with the U.S. Standard General Ledger at the transaction level. Until the targeted enterprise resource planning system is fully deployed, the Air Force will not be completely compliant with FFMIA, and proprietary financial reporting will be largely based on budgetary transactions and non-financial feeder systems.

### Progress Toward Auditability

The CFO Act of 1990 requires that large federal agencies have their financial statements audited. During FY 2015, the Air Force made significant progress towards our goal of publishing auditable financial statements by September 30, 2017. We have implemented the Financial Improvement and Audit Readiness (FIAR) plan provided by the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) [OUSD (C)].

#### Wave 1-Appropriations Received

Corrective actions were completed in FY 2010 and audit readiness was validated by an Independent Public Accountant (IPA) examination in FY 2011. The Air Force has successfully maintained auditability.

#### Wave 2-Statement of Budgetary Resources (SBR)

Fund Balance with Treasury reconciliation was validated as audit ready by an IPA in 2011. The Air Force asserted the audit readiness of the Schedule of Budgetary Activity (SBA) in July 2014. An IPA began their examination of the FY 2015 Schedule in December 2014. The SBA reports the budgetary activity of one fiscal year using the same format of the Statement of Budgetary Resources with the exception of Balance Brought Forward. The IPA examination is divided into four phases: planning, internal control testing, substantive testing, and reporting. Internal control testing began in July 2015. The IPA visited 19 separate DFAS and Air Force sites to review financial processes and 9 sites were visited to review financial information system controls. The examination opinion is expected in November 2015.

The Air Force has identified several challenges and risks to achieving a successful SBA examination opinion. The current legacy systems environment makes reconciling from a source system to the General Ledger to the financial statements very difficult. We are developing several manual controls to mitigate these system deficiencies. The IPA has requested a large volume of supporting

documentation. Although we have allocated significant resources to accommodate auditor requests, there is a risk that we might not be able to provide all requested documentation on a timely basis due to the large volume of requested documentation.

In July 2015, the Air Force began an effort to determine SBR beginning balances. A universe of beginning balances will be finalized based upon the age of the underlying transactions. Documentation will be identified to ensure that transactions can be supported. Existing contracts will be reviewed to ensure that they are still valid and stale and invalid contracts will be cancelled. The Air Force expects to assert the SBR beginning balances as audit ready in June 2016.

#### Wave 3-Existence and Completeness (E&C) of Mission Critical Assets

The Air Force has asserted to the Existence and Completeness of Military Equipment (which includes aircraft, satellites, and inter-continental ballistic missiles), cruise missiles, spare engines, uninstalled missile motors, and aerial targets/drones. The DoD Inspector General issued an unqualified examination opinion in June 2012 on these assets recorded in the Reliability and Maintainability Information System (REMIS). We asserted to the audit readiness of the \$15 billion of munitions owned and possessed by the Air Force in FY 2014. The DoD Inspector General issued a qualified opinion in July 2015. We also asserted to the E&C of Support General Equipment in August 2015. The value of this assertion was \$32.7 billion. The assertion package is currently being reviewed by OUSD (C) and will soon be under examination. In late FY 2015 and early 2016, the Air Force conducted extensive floor-to-book and book-to-floor testing of Real Property. One base from each MAJCOM was selected for testing. We submitted a real property assertion status memo to OSD FIAR in September 2015. We plan to assert to the audit readiness of Real Property in early third quarter of 2016. The Air Force will also assert to the E&C of base possessed spare parts in November 2015.

One significant challenge to asserting the E&C of Air Force assets is maintaining accountability for those assets in the possession of contractors. The Air Force began an effort to record all government furnished property (GFP) in an Air Force accountable property system of record (APSR). In January 2010, there were 11,200 GFP assets valued at \$229 million recorded in an APSR. By

April 2015, 328,000 contractor possessed equipment items valued at \$7 billion were recorded in the APSR. The Air Force is continuing to capture the universe and we are requiring contractors to report assets they possess based on new guidance and instructions provided by the Air Force Acquisition and Logistics communities.

While General Equipment provided to contractors has an APSR, the Service Development and Delivery Process is being used to identify and finalize the designation of an APSR for Operating Material and Supplies in the possession of contractors. The Air Force expects to demonstrate accountability for all assets on the Balance Sheet by June 2016.

#### Wave 4-Full Financial Statements Audit

The Air Force recently completed assertion packages validating the liability balances for Accrued Environmental Restoration and Base Realignment and Closure Installations (BRAC). These assertion packages were reviewed by the Air Force Audit Agency (AFAA). AFAA issued a draft report stating BRAC Environmental Liabilities had been properly asserted and issued no findings or recommendations. We are still awaiting the report for Restoration. Other Accrued Environmental Liabilities will be asserted as audit ready in December 2016. Environmental Disposal for Military Equipment/Weapons Programs will be asserted no later than March 2017.

The Air Force continues to improve its control environment over business processes in support of audit readiness of all four principle financial statements. Our financial improvements focus on ensuring assets are accurately valued using a method approved by the DoD Financial Management Regulations and the Federal Accounting Standards Advisory Board. The Air Force must ensure that supporting documentation exists to validate it has rights to assets and obligations to pay liabilities included in the financial statements. The Air Force is also working to ensure that accounts are described and classified in the financial statements in accordance with Generally Accepted Accounting Principles and disclosures are correct, complete and communicated clearly. Although challenges - such as antiquated legacy systems and unsupported journal vouchers – remain, we continue to make improvements to ensure sufficient evidential support exists to assert to full audit readiness by September 2017.

## Defense Enterprise Accounting and Management System (DEAMS)

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

In October, FY 2015, DEAMS successfully completed deployment to all Air Combat Command and Air Education and Training Command locations. The program also completed deployment to 11 Air Force Reserve Command locations and 33 Air National Guard Geographically Separated Units on June 01, 2015. DEAMS is now deployed to over 6,200 users.

DEAMS will improve Air Force auditability by sharing financial data, automating the processing of transactions between business partners, eliminating manual processes, and reducing offline processing. In addition, DEAMS has adopted the Standard Financial Information Structure which allows information to be shared seamlessly with other DoD components and enables consistent reporting for Congress, Office of the Secretary of Defense and Air Force senior leaders which will further advance the Air Force's efforts of publishing auditable statements.

## Analysis of Financial Statements

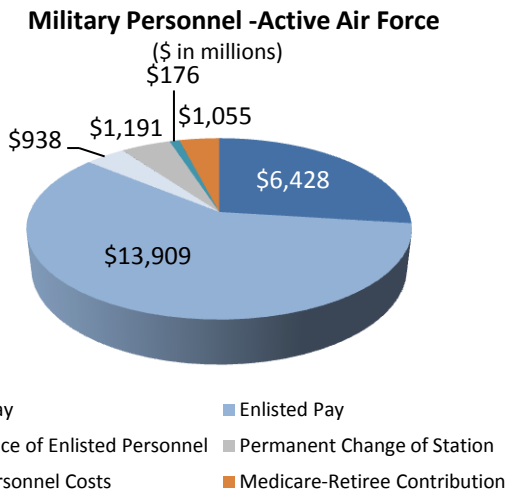
The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations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

## Air Force General Fund

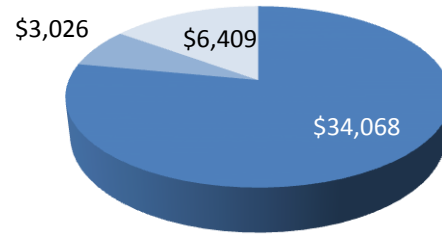
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### Military Personnel (MILPERS)

This appropriation provides funding for the care and payroll of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel, including regular pay, allowances, and bonuses. Additionally, this appropriation funds all Permanent Change of Station (PCS) moves and supports a total force (active, reserve and guard) of 480,100.



**FY 2015 "Blue" O&M Expenditures**  
(\$ in millions)



■ Air Force Active Duty ■ Air Force Reserve ■ Air National Guard

Air Force Total Force TOA (\$ in millions)	FY 15 Expenditure
Flying Operations	\$17,635
Civilian Pay	\$10,627
Installation Support and FSRM	\$5,873
Space/Other Combat Forces	\$5,690
Logistics Ops and Air Force-Wide Support	\$2,066
Training and Recruiting	\$937
Mobility Forces	\$675
<b>Air Force O&amp;M "Blue" TOA Total</b>	<b>\$43,503</b>

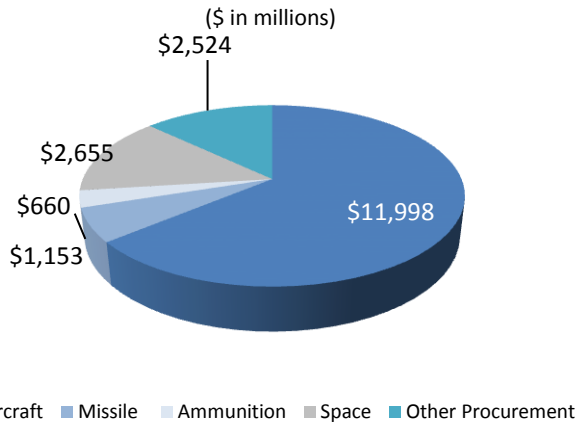
### Procurement

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

### Operations & Maintenance (O&M)

This appropriation funds readiness programs critical to prepare forces to conduct combat operations. These include day-to-day operating costs such as flying hours, space operations, depot maintenance, training, spare parts, facilities, base operations and civilian pay. The FY 2015 appropriation supported 79 major installations, including operations at two space lift ranges and 1.2 million flying hours.

**FY 2015 "Blue" Procurement**



"Blue" Aircraft Procurement (\$ in millions)	FY 15 Expenditure
Combat Aircraft	\$3,983
Modification of In-service Aircraft	\$2,859
Airlift Aircraft	\$2,951
Aircraft Support Equipment and Facilities	\$1,176
Other Aircraft	\$564
Aircraft Spares and Repair Parts	\$467
<b>"Blue" Aircraft Procurement Total</b>	<b>\$12,000</b>

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

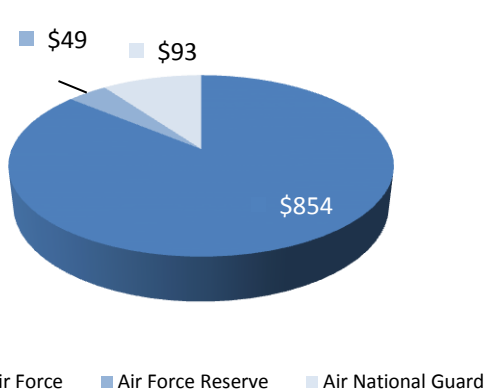
The RDT&E appropriation funds basic and applied scientific research as well as future weapon systems development, test and evaluation. Basic research involves the scientific study and experimentation related to long-term national security, while applied research is the systematic study to understand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

RDT&E Major Programs (\$ in millions)	FY 15 Expenditure
Science and Technology	\$2,282
Long Range Strike-Bomber	\$914
KC-46	\$786
F-35 Engineering & Manufacturing Development	\$569
SBIRS Engineering and Manufacturing Development	\$309
AEHF Military Satellite Communications	\$308
GPS III-OCX	\$299
RQ-4 UAV	\$242
F-15E Squadrons	\$242

**Military Construction.**

The Military Construction appropriation funds large scale facility construction projects supporting Total Force Airmen. The enacted FY 2015 military construction was \$996 million.

**FY 2015 Military Construction**



**Military Family Housing (MFH)**

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

Military Family Housing (\$ in millions)	FY 15 Expenditure
MFH Operating and Maintenance	\$328
MFH-Construction Improvements	0
MFH-Construction Planning and Design	0
<b>Total MFH Expenditures</b>	<b>\$328</b>

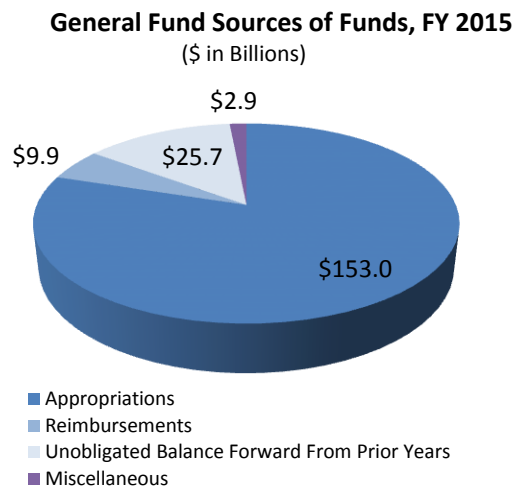


## Base Realignment and Closure (BRAC)

The law authorizes Base Realignment and Closure accounts to fund one-time costs that are a result of BRAC-directed actions. In FY 2015 the Air Force expended \$91 million to fund environmental restoration and property management at Air Force installations under previous BRAC rounds.

### Results of Operation

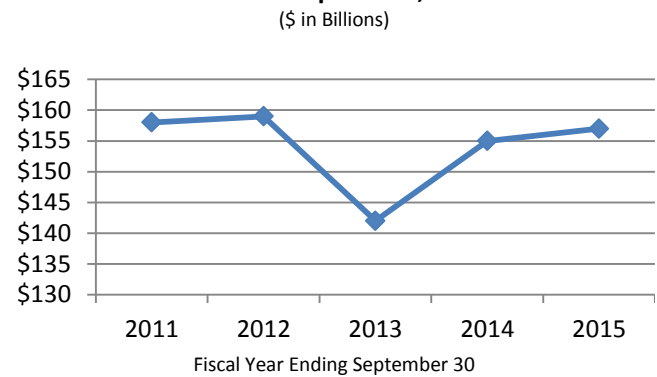
The Combined Statement of Budgetary Resources presents total budgetary resources of \$191.5 billion that were available to the General Fund during FY 2015. Total budgetary resources for FY 2014 were \$188.5 billion. Total obligations incurred in FY 2015 were \$160.0 billion compared to \$162.8 billion for FY 2014.



### Statement of Net Cost

The Combined Statement of Net Cost presents net cost of operations of 156.8 billion during FY 2015 compared to \$154.9 billion for FY 2014. Net Cost of Operations represents gross costs incurred by the General Fund less earned revenue.

## AFGF Net Cost of Operation, FY 2011- 2015



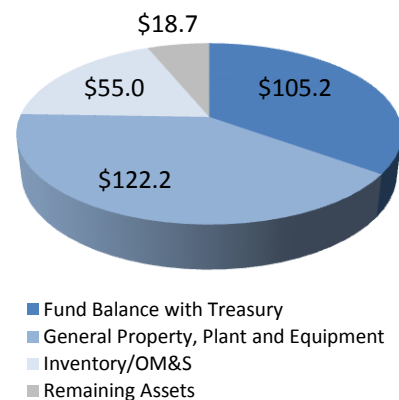
### Financial Position

The General Fund continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2015, net position totaled \$277.4 billion. As of September 30, 2014, net position totaled \$283.7 billion.

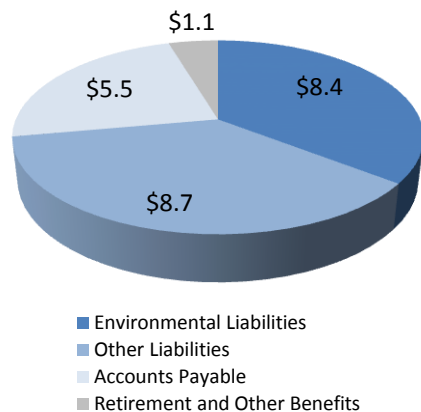
Total assets were \$301.1 billion as of September 30, 2015, compared to \$307.3 billion as of September 30, 2014. Total liabilities were \$23.7 billion as of September 30, 2015, compared to \$23.6 billion as of September 30, 2014.

### General Fund Total Assets, FY 2015

(\$ in Billions)



**General Fund Total Liabilities, FY 2015**  
(\$ in Billions)



## Air Force Working Capital Fund

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

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

### Consolidated Sustainment Activity Group (CSAG)

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

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

customer demands. The Maintenance Division's depots have unique skills and equipment required to support and overhaul both new, complex components as well as aging weapon systems. During wartime or contingencies, the depots can surge repair operations and realign capacity to support the war fighter's immediate needs.

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

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

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

### Supply Management Activity Group-Retail

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

The Air Force SMAG-R provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation. Consumable item inventories are an integral part of SMAG-R and are maintained by each of the divisions in support of customer requirements. The SMAG-R objective is to replenish inventories and provide supplies to customers in a timely manner within customer funding constraints, while maintaining fund solvency. The Air Force SMAG-R manages weapon system spare parts, medical-dental supplies and equipment, and other supply items used in non-weapon system applications.

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

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

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

### Air Force Working Capital Fund Customers

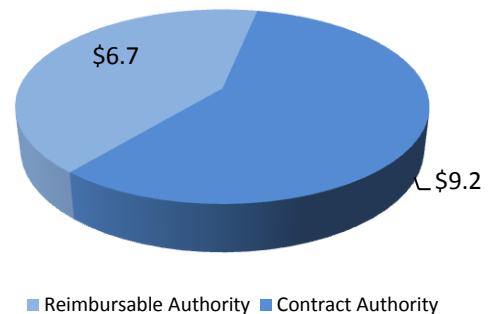
AFWCF provides support to a variety of customers: Air Force Major Commands (including the Air National Guard & Air Force Reserves), the Army, the Navy, other WCFs, other government agencies and foreign countries.

### Results of Operation

#### Available Resources:

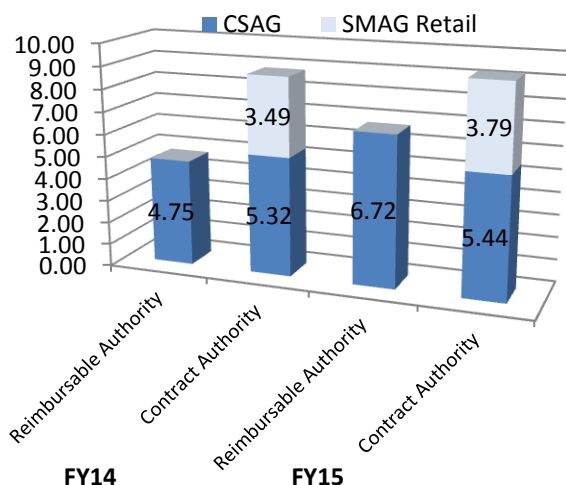
The combined Statement of Budgetary Resources presents total budgetary resources of \$15.9 billion that were available to AFWCF during FY 2015 and the status of those resources at fiscal year-end. Total budgetary resources consist of reimbursable Customer Orders Accepted and Contract Authority Used. For comparison, total budgetary resources for fiscal year-end 2014 were \$13.5 billion. The pie chart below is the graphic representation of the ratio between the Customer Orders Accepted and the Contract Authority Used in FY 2015.

**AFWCF Sources of Funds, FY 2015**  
(\$ in Billions)



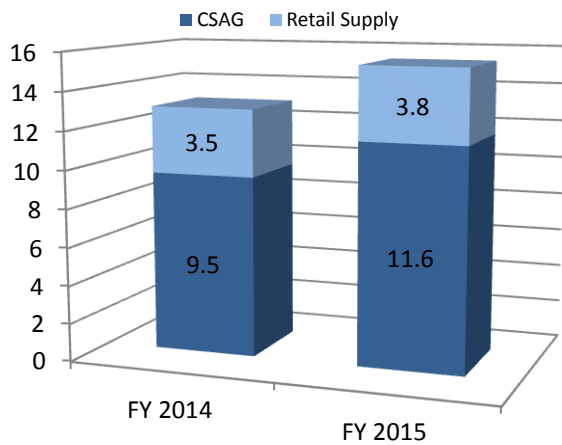
The following chart is a two year comparative of how those resources were distributed between CSAG and SMAG-R.

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



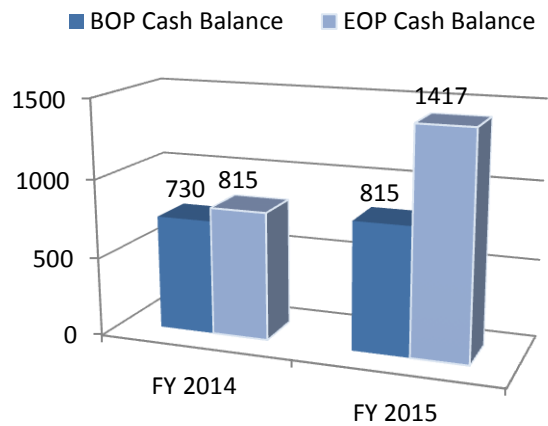
The combined FY 2015 year end Statement of Budgetary Resources presents the total obligations incurred during FY 2015 of \$15.4 billion, compared to \$13.0 billion during FY 2014. The chart below is a two year comparative of how those obligations were distributed between CSAG and SMAG-R.

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



The AFWCF FY 2015 lower range cash goal was \$901.1 million and the upper range cash goal was \$1,200.5 million. AFWCF yearend cash balance, \$1,417.2 million, exceeded the upper range cash goal. The chart below depicts the comparative cash position.

**Comparative Cash Balance**  
(\$ in Millions)



The net difference between the FY 2015 total budgetary resources and the total obligations incurred during FY 2015 is the Available Budgetary Resources of \$1,392.9 million. This balance will carry forward and become the opening balance for AFWCF FY2016 operations. For comparison, the FYE 2014 Available Budgetary Resources for AFWCF were \$993.4 million.

### Cash Management

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

AF targets to maintain cash within operating ranges to ensure balances are sufficient for disbursements in support of the operating and capital programs, as required by the Department of Defense Financial Management Regulation.



# **Fiscal Year 2015**

## **Annual Financial Statements**

### **Limitations to the Financial Statements**

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

# General Fund

## Principal Statements

### Fiscal Year 2015

The FY 2015 Department of the Air Force General Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the General Fund for the fiscal year ending September 30, 2015, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2014.

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

#### **Consolidated Balance Sheet**

The Consolidated Balance Sheet presents as of September 30, 2015 and 2014 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

#### **Consolidated Statement of Changes in Net Position**

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2015 and 2014.

#### **Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2015 and 2014, the status of these resources at September 30, 2015 and 2014, and the outlay of budgetary resources for the years ended September 30, 2015 and 2014.

#### **Consolidated Statement of Changes in Net Position-Dedicated Collections**

The Consolidated Statement of Changes in Net Positions-Dedicated Collections presents the collection of earmarked fund for the years ended September 30, 2015 and 2014.

#### **Consolidated Statement of Net Cost**

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2015 and 2014. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

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

**Department of Defense**  
**Department of the Air Force**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 105,151,532	\$ 102,756,492
Investments (Note 4)	954	954
Accounts Receivable (Note 5)	514,349	538,612
Other Assets (Note 6)	168,885	220,314
<b>Total Intragovernmental Assets</b>	<u>\$ 105,835,720</u>	<u>\$ 103,516,372</u>
Cash and Other Monetary Assets (Note 7)	\$ 64,240	\$ 77,965
Accounts Receivable, Net (Note 5)	326,703	285,621
Inventory and Related Property, Net (Note 9)	54,997,937	56,320,794
General Property, Plant and Equipment, Net (Note 10)	122,216,363	130,360,599
Other Assets (Note 6)	17,635,029	16,767,061
<b>TOTAL ASSETS</b>	<u>\$ 301,075,992</u>	<u>\$ 307,328,412</u>
<b>STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,012,406	\$ 2,065,786
Other Liabilities (Note 15 & 16)	1,183,959	1,762,643
<b>Total Intragovernmental Liabilities</b>	<u>\$ 3,196,365</u>	<u>\$ 3,828,429</u>
Accounts Payable (Note 12)	\$ 3,513,528	\$ 3,339,169
Military Retirement and Other Federal	1,083,880	1,164,231
Employment Benefits (Note 17)		
Environmental and Disposal Liabilities (Note 14)	8,382,297	8,142,364
Other Liabilities (Note 15 and Note 16)	7,488,373	7,173,121
<b>TOTAL LIABILITIES</b>	<u>\$ 23,664,443</u>	<u>\$ 23,647,314</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations - Other Funds	112,260,490	109,490,258
Cumulative Results of Operations - Dedicated	52,304	41,141
Collections (Note 23)		
Cumulative Results of Operations - Other Funds	165,098,755	174,149,699
<b>TOTAL NET POSITION</b>	<u>\$ 277,411,549</u>	<u>\$ 283,681,098</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 301,075,992</u>	<u>\$ 307,328,412</u>

Department of Defense  
 Department of the Air Force  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended September 30, 2015 and 2014  
 (\$ in Thousands)

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>Beginning Balances</b>	\$ 174,190,840	\$ 187,128,463
<b>Beginning balances, as adjusted (Includes Funds from</b>	<u>174,190,840</u>	<u>187,128,463</u>
<b>Dedicated Collections - See Note 23)</b>		
<b>Budgetary Financing Sources:</b>		
Appropriations used	147,437,395	146,552,133
Nonexchange revenue	3,098	(101,720)
Donations and forfeitures of cash and cash equivalents	35,511	10,384
Transfers-in/out without reimbursement	457,134	205,336
<b>Other Financing Sources:</b>		
Transfers-in/out without reimbursement (+/-)	(3,094,770)	256,135
Imputed financing from costs absorbed by others	645,519	818,188
Other (+/-)	2,293,122	(5,732,825)
<b>Total Financing Sources (Includes Funds from Dedicated</b>	<u>147,777,009</u>	<u>142,007,631</u>
<b>Collections - See Note 23)</b>		
<b>Net Cost of Operations (+/-) (Includes Funds from</b>	156,816,790	154,945,254
<b>Dedicated Collections - See Note 23)</b>		
<b>Net Change</b>	<u>(9,039,781)</u>	<u>(12,937,623)</u>
<b>Cumulative Results of Operations (Includes Funds from</b>	165,151,059	174,190,840
<b>Dedicated Collections - See Note 23)</b>		
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>Beginning Balances (Includes Funds from Dedicated</b>	\$ 109,490,258	\$ 106,573,118
<b>Collections - See Note 23)</b>		
<b>Beginning balances, as adjusted</b>	<u>109,490,258</u>	<u>106,573,118</u>
<b>Budgetary Financing Sources:</b>		
Appropriations received	152,777,757	152,159,574
Appropriations transferred-in/out	727,153	788,205
Other adjustments (rescissions, etc)	(3,297,283)	(3,478,506)
Appropriations used	(147,437,395)	(146,552,133)
<b>Total Budgetary Financing Sources (Includes Funds from</b>	2,770,232	2,917,140
<b>Dedicated Collections - See Note 23)</b>		
<b>Unexpended Appropriations (Includes Funds from</b>	112,260,490	109,490,258
<b>Dedicated Collections - See Note 23)</b>		
<b>Net Position</b>	<u>277,411,549</u>	<u>283,681,098</u>



**Department of Defense**  
**Department of the Air Force**

**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Combined</u>	<u>2014 Combined</u>
<b>Budgetary Resources:</b>		
Unobligated balance brought forward, Oct 1	25,747,449	25,628,189
Unobligated balance brought forward, Oct 1, as adjusted,	\$ 25,747,449	\$ 25,628,189
Recoveries of prior year unpaid obligations	5,185,216	4,553,827
Other changes in unobligated balance (+ or -)	(2,263,094)	(2,045,605)
Unobligated balance from prior year budget authority, net	28,669,571	28,136,411
Appropriations (discretionary and mandatory)	152,964,678	151,731,862
Spending Authority from offsetting collections	9,869,969	8,642,593
Total Budgetary Resources	<u>191,504,218</u>	<u>188,510,866</u>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	159,986,111	162,763,417
Unobligated balance, end of year		
Apportioned	24,487,205	19,830,205
Exempt from Apportionment	10,680	12,862
Unapportioned	7,020,222	5,904,382
Total unobligated balance, end of year	<u>31,518,107</u>	<u>25,747,449</u>
Total Budgetary Resources	<u>191,504,218</u>	<u>188,510,866</u>
<b>Change in Obligated Balance:</b>		
<b>Unpaid obligations:</b>		
Unpaid obligations, brought forward, Oct 1	78,988,542	76,881,018
Obligations incurred	159,986,111	162,763,417
Outlays (gross) (-)	(158,048,428)	(156,102,066)
Recoveries of prior year unpaid obligations (-)	(5,185,216)	(4,553,827)
Unpaid obligations, end of year	75,741,009	78,988,542
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,348,723)	(1,962,974)
Change in uncollected pymts, Fed sources (+ or -)	158,493	(385,749)
Uncollected pymts, Fed sources, end of year (-)	(2,190,230)	(2,348,723)
Obligated balance, start of year (+ or -)	<u>76,639,819</u>	<u>74,918,044</u>
Obligated balance, end of year (+ or -)	<u>73,550,779</u>	<u>76,639,819</u>

**Department of Defense**  
**Department of the Air Force**

**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Combined</u>	<u>2014 Combined</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	162,834,647	160,374,455
Actual offsetting collections (discretionary and mandatory) (-)	(10,028,463)	(8,256,844)
Change in uncollected customer payments from Federal	158,493	(385,749)
Sources (discretionary and mandatory) (+ or -)		
Budget Authority, net (discretionary and mandatory)	<u>152,964,677</u>	<u>151,731,862</u>
Outlays, gross (discretionary and mandatory)	158,048,428	156,102,066
Actual offsetting collections (discretionary and mandatory) (-)	(10,028,463)	(8,256,844)
Outlays, net (discretionary and mandatory)	148,019,965	147,845,222
Distributed offsetting receipts (-)	(5,987)	(165,256)
Agency Outlays, net (discretionary and mandatory)	<u>148,013,978</u>	<u>147,679,966</u>

**Department of Defense**  
**Department of the Air Force**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>Program Costs</b>		
Gross Costs	\$ 162,026,207	\$ 161,128,771
Military Personnel	34,377,674	35,631,951
Operations, Readiness & Support	54,564,462	50,904,702
Procurement	46,814,740	48,266,092
Research, Development, Test & Evaluation	24,922,948	25,082,132
Family Housing & Military Construction	1,346,383	1,243,894
	<hr/>	<hr/>
(Less: Earned Revenue)	(5,209,417)	(6,183,517)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<hr/> 156,816,790	<hr/> 154,945,254
Net Program Costs Including Assumption Changes	156,816,790	154,945,254
<b>Net Cost of Operations</b>	<hr/> <b>\$ 156,816,790</b>	<hr/> <b>\$ 154,945,254</b>

# **General Fund**

## **Fiscal Year 2015**

### **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.



<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

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

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

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

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

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

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

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

**1.C. Appropriations and Funds**

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

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

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

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not Air Force funds, and as such, are not available for Air Force operations. The Air Force is acting as an agent or a custodian for funds awaiting distribution.

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

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

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

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

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

**1.D. Basis of Accounting**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

##### **1.J. Cash and Other Monetary Assets**

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

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

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



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

**1.K. Accounts Receivable**

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

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

Not applicable

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

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

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

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

The Air Force recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

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

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

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

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

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

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

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

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

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

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

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

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Air Force records the applicable asset as though it was purchased with an offsetting liability and depreciates it. The Air Force records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Air Force, as the

lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

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

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

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

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

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

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

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

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

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

**1.T. Accrued Leave**

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

**1.U. Net Position**

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

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

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

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

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

**1.W. Undistributed Disbursements and Collections**

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

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

**1.X. Fiduciary Activities**

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

**1.Y. Military Retirements and Other Federal Employment Benefits**

Not applicable.

**1.Z. Significant Events**

Not Applicable.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 86,083	\$ 78,744
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 86,083	\$ 78,744
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 64,240	\$ 77,965
B. Accounts Receivable	8,570	5,341
C. Other Assets	3,000	171,500
D. Total Nonfederal Assets	\$ 75,810	\$ 254,806
<b>3. Total Nonentity Assets</b>	\$ 161,893	\$ 333,550
<b>4. Total Entity Assets</b>	\$ 300,914,099	\$ 306,994,862
<b>5. Total Assets</b>	\$ 301,075,992	\$ 307,328,412

**Relevant Information for Comprehension**

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

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

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

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

Nonfederal Other Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These



agreements are used for the financing of cost-type contracts with nonprofit educational research institutions for experimental research and development work when several contracts or a series of contracts require financing by advance payments. These funds are not available for use in Air Force operations.

<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 105,046,975	\$ 102,354,966
B. Revolving Funds	0	0
C. Trust Funds	18,171	29,084
D. Special Funds	2,787	2,329
E. Other Fund Types	83,599	370,113
F. Total Fund Balances	\$ 105,151,532	\$ 102,756,492
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 105,160,194	\$ 102,763,520
B. Fund Balance per Agency	105,151,532	102,756,492
<b>3. Reconciling Amount</b>	\$ 8,662	\$ 7,028

**Relevant Information for Comprehension**

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

The Air Force shows a reconciling amount of \$8.7 million with U.S. Treasury, which is comprised of the net value of the following:

- (\$17.3) million in allocation transfers from Air Force (known as the Parent Agency) to the Department of Transportation (DoT) (known as the Child Agency). These funds are reported in the Fund Balance with Treasury (FBWT) on the Air Force Trial Balance but are not included in the FBWT at the Treasury of the United States (TUS) via the Governmentwide Accounting System (GWA) because TUS reports these balances under DoT. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.
- \$24.0 million in allocation transfers to Air Force (known here as the Child Agency) from other agencies (known as Parent Agencies). These are not reported in the FBWT on the Air Force Trial Balance but they are included in the FBWT at TUS in GWA. The Foreign Military Sales-Military Assistance Program (FMS-MAP), the Department of Agriculture and the Department of Transportation record these balances in their FBWT on their respective Trial Balances. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.
- \$2.0 million in an unavailable receipt account due to it being the Savings Deposit Program (SDP) which is a fiduciary activity. These funds are not reported in the FBWT on the Air Force Trial Balance and are only reported as part of the Fiduciary Cash balances on Footnote 24, however, the balance is included in the FBWT by TUS in GWA.

## Status of Fund Balance with Treasury

As of September 30	2015		2014	
(Amounts in thousands)				
<b>1. Unobligated Balance</b>				
A. Available	\$	24,497,885	\$	19,843,066
B. Unavailable		7,020,222		5,904,448
<b>2. Obligated Balance not yet Disbursed</b>	\$	75,741,009	\$	78,988,540
<b>3. Nonbudgetary FBWT</b>	\$	83,599	\$	370,113
<b>4. NonFBWT Budgetary Accounts</b>	\$	(2,191,183)	\$	(2,349,675)
<b>5. Total</b>	\$	105,151,532	\$	102,756,492

### Relevant Information for Comprehension

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

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

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

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

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

**Note 4. Investments and Related Interest**

As of September 30	2015			
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net

(Amounts in thousands)

**1. Intragovernmental Securities**

**A. Nonmarketable, Market-Based**

1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	953		0	953	954
5. Total Nonmarketable, Market-Based	953		0	953	954

B. Accrued Interest	1			1	1
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**C. Total Intragovernmental Securities**

	\$ 954	\$ 0	\$ 954	\$ 955
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**2. Other Investments**

A. Total Other Investments	\$ 0	\$ 0	\$ 0	0	N/A
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As of September 30	2014				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
<b>3. Intragovernmental Securities</b>					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	\$ 0.00
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0.00
3. US Army Corps of Engineers	0		0	0	0.00
4. Other Funds	954		0	954	954
5. Total Nonmarketable, Market-Based	954		0	954	954
B. Accrued Interest	0			0	1
C. Total Intragovernmental Securities	\$ 954		\$ 0	\$ 954	\$ 955
<b>4. Other Investments</b>					
A. Total Other Investments	\$ 0		\$ 0	\$ 0	N/A

**Relevant Information for Comprehension**

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

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

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



<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of September 30	2015		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 514,349	N/A	\$ 514,349
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 343,259	\$ (16,556)	\$ 326,703
<b>3. Total Accounts Receivable</b>	<u>\$ 857,608</u>	<u>\$ (16,556)</u>	<u>\$ 841,052</u>

As of September 30	2014		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 538,612	N/A	\$ 538,612
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 532,818	\$ (247,197)	\$ 285,621
<b>3. Total Accounts Receivable</b>	<u>\$ 1,071,430</u>	<u>\$ (247,197)</u>	<u>\$ 824,233</u>

#### Relevant Information for Comprehension

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

<b>Note 6.</b>	<b>Other Assets</b>
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As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 168,885	\$ 220,314
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 168,885	\$ 220,314
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 17,618,136	\$ 16,576,105
B. Advances and Prepayments	13,893	19,456
C. Other Assets (With the Public)	3,000	171,500
D. Total Nonfederal Other Assets	\$ 17,635,029	\$ 16,767,061
<b>3. Total Other Assets</b>	\$ 17,803,914	\$ 16,987,375

**Relevant Information for Comprehension**

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

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

The balance of Outstanding Contract Financing Payments includes both \$15.4 billion in contract financing payments and \$2.2 billion in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Cash</b>	\$ 46,232	\$ 45,877
<b>2. Foreign Currency</b>	18,008	32,088
<b>3. Other Monetary Assets</b>	0	0
<b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<u>\$ 64,240</u>	<u>\$ 77,965</u>

#### Relevant Information for Comprehension

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

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but are not available for use in its operations. These assets are held by Air Force Disbursing Officers as agents of U.S. Treasury. The total balance of \$64.2 million is restricted.

<b>Note 8.</b>	<b>Direct Loans and Loan Guarantees</b>
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Not applicable

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of September 30	2015	2014
(Amounts in thousands)		
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materials & Supplies, Net	54,997,937	56,320,794
3. Stockpile Materiel, Net	0	0
<b>4. Total</b>	<b>\$ 54,997,937</b>	<b>\$ 56,320,794</b>

**Relevant Information for Comprehension**

**General Composition of OM&S**

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

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

**Restrictions on the Use of OM&S**

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

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

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

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

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

### **Operating Materiel and Supplies (OM&S) Value**

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

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

### **Other Air Force Disclosures**

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

## Inventory, Net

Not applicable

## Operating Materials and Supplies, Net

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

(Amounts in thousands)

### 1. OM&S Categories

A. Held for Use	\$ 30,063,910	\$ 0.00	\$ 30,063,910	SP, LAC, MAC
B. Held for Repair	24,934,027	0.00	24,934,027	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	583,705	(583,705)	0.00	NRV
<b>D. Total</b>	<b>\$ 55,581,642</b>	<b>\$ (583,705)</b>	<b>\$ 54,997,937</b>	

As of September 30	2014			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

### 1. OM&S Categories

A. Held for Use	\$ 41,137,268	\$ 0	\$ 41,137,268	SP, LAC, MAC
B. Held for Repair	15,183,526	0	15,183,526	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	704,574	(704,574)	0.00	NRV
<b>D. Total</b>	<b>\$ 57,025,368</b>	<b>\$ (704,574)</b>	<b>\$ 56,320,794</b>	

### Legend for Valuation Methods:

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

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

MAC = Moving Average Cost

## Stockpile Materiel, Net

Not applicable.



<b>Note 10.</b>	<b>General Property, Plant &amp; Equipment, Net</b>
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As of September 30

2015

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

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

As of September 30	2014				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
<b>1. Major Asset Classes</b>					
A.Land	N/A	N/A	\$ 432,532	N/A	\$ 432,532
B.Buildings, Structures, and Facilities	S/L	20 Or 40	77,145,079	\$ (41,002,201)	36,142,878
C. Leasehold Improvements	S/L	Lease Term	70,456	(15,995)	54,461
D. Software	S/L	2-5 or 10	627,530	(425,504)	202,026
E.General Equipment	S/L	Various	340,270,219	(251,398,535)	88,871,684
F. Assets Under Capital Lease	S/L	Lease Term	93,898	(89,198)	4,700
G. Construction-in-Progress	N/A	N/A	4,652,318	N/A	4,652,318
H. Other			0	0	0
I. Total General PP&E			\$ 423,292,032	\$ (292,931,433)	\$ 130,360,599

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

**Heritage Assets and Stewardship Land**

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	6,106	53	42	6,117
Archeological Sites	Each	1,974	0	0	1,974
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,213	299	234	135,278
Museum Collection Items (Objects, Fine Art)	Each	15,254	56	52	15,258

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	1,565	0	0	1,565
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,268	0	1	6,267
9130	Licensed and Permitted Land	735	0	0	735
9140	Public Land	0	0	0	0
9210	Land Easement	161	0	1	160
9220	In-leased Land	104	0	1	103
9230	Foreign Land	296	0	0	296
Grand Total					9,126
TOTAL - All Other Lands					2,859
TOTAL – Stewardship Lands					6,267

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

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

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

**Other Air Force Disclosures**

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

## **Heritage Assets and Stewardship Land**

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

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

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

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

## **Buildings and Structures**

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reported 6,702 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2014. However, this number was found to be incorrect during the FY15 data query of ACES-RP. The actual number for FY14 is 6106. The number of Buildings and Structures considered Heritage Assets in FY15 is 6117, an increase of 11 total, but a result of 53 additions to the list and 42 deletions due to demolitions.

The FY14 error is probably due to over counting the multi-use facilities, in essence counting each instance of use as a separate facility.

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

## **Archaeological Sites**

Prehistoric and historic archaeological sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reported 3,090 archeological sites were Heritage Assets as of Sep 2014. This number also was found to be incorrect during the Defense

Environmental Program Annual Report to Congress data call Oct-Nov, 2014. The actual number reported by CONUS installations is 1974. The AF has not yet collected FY15 data on the number of archaeological Heritage Assets, and so herein reports the FY14 number, 1974. This cohort of archaeological Heritage Assets is a subset of over 21,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories.

There is one primary reason for the over count of FY14 archaeological Heritage Assets: Relatively poor data management at several installations resulting in years of inaccurate reporting culminating in the FY13 DEPARC data call. The AF Audit Agency FIAR, and the improved methods of DEPARC data collection at AFCEC, along with increased scrutiny of reported data at AFCEC, resulted in a much more accurate count during the FY14 DEPARC data call (DEPARC data call is done annually more than a month later than these RSI reports, so "official" FY data counts are not available for inclusion in that FY RSI). Next FY RSI, the AF will report the FY15 data reported in the FY15 DEPARC, which likely will be done Oct-Nov, 2016.

### **Museum Collection Items, Objects**

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

During the period 1 October 2014 – 30 September 2015 there have been 299 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 234 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2015 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well as extensive conservation work on the museum's "Presidential" aircraft in anticipation of their move to the newly constructed 4th building.

### **Museum Collection Items, Fine Art**

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1276 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

The Air Force Art Collection contains original oils, drawing, sketches and sculptures. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. This represents 56 additions from the Air Force Art Program. The deletions were Captured German artwork that was transferred back to the Army Art Collection. The Art Program did not include any additions or deletions from the National Museum of the United States Air Force holdings.

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

## Assets Under Capital Lease

As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Entity as Lessee, Assets Under Capital Lease</b>		
A. Land and Buildings	\$ 0	\$ 93,898
B. Equipment	0	0
C. Accumulated Amortization	(0)	(89,198)
D. Total Capital Leases	<u>\$ 0</u>	<u>\$ 4,700</u>

## Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2015	2014
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	327,991	341,550
<b>D. Total Intragovernmental Liabilities</b>	<u>\$ 327,991</u>	<u>\$ 341,550</u>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 77,517	\$ 4,924
B. Military Retirement and Other Federal Employment Benefits	1,079,798	1,160,018
C. Environmental and Disposal Liabilities	7,341,616	7,047,453
D. Other Liabilities	2,899,540	2,920,835
<b>E. Total Nonfederal Liabilities</b>	<u>\$ 11,398,471</u>	<u>\$ 11,133,230</u>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<u>\$ 11,726,462</u>	<u>\$ 11,474,780</u>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<u>\$ 11,937,981</u>	<u>\$ 12,172,534</u>
<b>5. Total Liabilities</b>	<u>\$ 23,664,443</u>	<u>\$ 23,647,314</u>

## **Relevant Information for Comprehension**

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

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

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

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

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



<b>Note 12.</b>	<b>Accounts Payable</b>
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As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,012,406	\$ N/A	\$ 2,012,406
2. Nonfederal Payables (to the Public)	3,513,528	0	3,513,528
<b>3. Total</b>	<b>\$ 5,525,934</b>	<b>\$ 0</b>	<b>\$ 5,525,934</b>

As of September 30	2014		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	\$ 2,065,786	\$ N/A	\$ 2,065,786
2. Nonfederal Payables (to the Public)	3,339,180	(11)	3,339,169
<b>3. Total</b>	<b>\$ 5,404,966</b>	<b>\$ (11)</b>	<b>\$ 5,404,955</b>

**Relevant Information for Comprehension**

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

<b>Note 13.</b>	<b>Debt</b>
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Not applicable

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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As of September 30

2015

2014

(Amounts in thousands)

**1. Environmental Liabilities--Nonfederal**

## A. Accrued Environmental Restoration Liabilities

1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	\$ 4,830,381	\$ 4,765,447
2. Active Installations—Military Munitions Response Program (MMRP)	484,269	356,933
3. Formerly Used Defense Sites—IRP and BD/DR	0	0
4. Formerly Used Defense Sites--MMRP	0	0

## B. Other Accrued Environmental Liabilities—Non-BRAC

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

## C. Base Realignment and Closure Installations

1. Installation Restoration Program	1,255,314	1,158,192
2. Military Munitions Response Program	2,249	513
3. Environmental Corrective Action / Closure Requirements	149	48,191
4. Asbestos	3,637	6,790
5. Non-Military Equipment	0	0
6. Other	0	0

## D. Environmental Disposal for Military Equipment / Weapons Programs

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

## E. Chemical Weapons Disposal Program

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

**2. Total Environmental Liabilities**

<b>\$ 8,382,297</b>	<b>\$ 8,142,364</b>
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## Relevant Information for Comprehension

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

### Applicable Laws and Regulations of Cleanup, Closure, and Disposal Requirements.

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

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

### Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

Once the environmental cleanup cost estimates are complete, the Air Force complies with accounting standards to assign costs to current operating periods. For asset-driven liabilities (with the exception of asbestos cleanup costs), the Air Force recognizes the full liability for cleanup costs associated with General PP&E placed into service prior to October 1, 1997. For asbestos cleanup costs, the effective placed in service date is September 30, 2012. For assets placed into service on or after these dates, the Air Force annually accumulates a liability and recognizes a corresponding expense throughout the assets' useful lives until the full liability is accrued. For event-driven liabilities, expenses are recognized and the associated liabilities are reduced in the operating periods in which work was performed at environmental sites.

### Types of Environmental Liabilities Identified

Air Force environmental liabilities are driven by events or existing assets. Event-driven liabilities are the estimated costs to investigate, remediate, and monitor existing environmental contaminations. These liabilities include accrued environmental restoration liabilities funded by the Defense Environmental Restorations Program (DERP), corrective action not funded by DERP, and environmental response at

operational ranges. Asset driven liabilities are the estimated costs to safely decommission or dispose of assets that contain hazardous waste when the assets are temporarily or permanently closed. The assets that drive these liabilities include facilities and equipment that require unique environmental activities at temporary or permanent closure, real property that contains asbestos, and weapons systems.

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

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

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

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

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

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

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

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

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

### **Unrecognized Costs**

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

## Other Disclosures

The total Air Force Active Installation restoration environmental liabilities (Section A, Line 1) increased by a total of 3.75% (IRP = 1.36% and MMRP = 35.68%) from 2014 to 2015, mainly due to the OSD Cost-to-Complete (CTC) Update Procedure – Update to the Department of Defense Manual (DoDM) 4715.20, “Defense Environmental Restoration Program (DERP) Management,” March 9, 2012, (including Chapters 13 and 14), signed by Mr. Conger on 11 July 2014. This procedure update provided guidance on estimating definite RA-O and LTM durations based on a modeling tool, closure/post-closure plan, regulatory document, or professional judgment, rather default to a rolling 30-year basis. This affected 66 installations and extended the cost to complete to fiscal year 2319. The major reason for the growth in the Active Installation MMRP program was due to wetland mitigation action (\$224M) required at Beale AFB CA.

The total Air Force BRAC environmental liabilities (Section C) increased by 4% from 2014 to 2015, mainly due to the OSD Cost-to-Complete (CTC) Update Procedure – Update to the Department of Defense Manual (DoDM) 4715.20, “Defense Environmental Restoration Program (DERP) Management,” March 9, 2012, (including Chapters 13 and 14), signed by Mr. Conger on 11 July 2014. This procedure update provided guidance on estimating definite RA-O and LTM durations based on a modeling tool, closure/post-closure plan, regulatory document, or professional judgment, rather default to a rolling 30-year basis. This affected 9 BRAC installations and extended the cost-to-complete to FY2094. The installations affected were: England, Galena, George, Griffiss, K.I. Sawyer, Kelly, Mather, McClellan, and Plattsburgh.

The AF BRAC Military Munitions Response Program line (Section C, line 2) increased by 339% from 2014. About \$1.01M of this increase was due to a time critical removal action at the former Myrtle Beach AFB in South Carolina, of a munitions disposal pit that was found by a developer during excavation of a new housing development. The remainder of the increase was for existing sites at the former Wurtsmith AFB in Michigan that are now included in the basewide five-year reviews, based on AFI 32-7020, and annual LUC inspections. This total cost at Wurtsmith did not change, but was originally reported under the IRP program (Section C, line 1).

The AF BRAC Environmental Corrective Action / Closure Requirements line (Section C, line 3) decreased by 100% from 2014, due to now appropriately reporting the BRAC emerging contaminants on the Installation Restoration Program line (Section C, line 1), based on the draft Emerging Contaminants (ECs) and Site Management Procedures – Update to DoD Manual (DoDM) 4715.20, “Defense Environmental Restoration Program (DERP) Management,” March 9, 2012. The AF BRAC emerging contaminant project is currently underway and is identifying the potential release of perfluorinated compounds (emerging contaminants) at suspected crash/spill non-site associated areas at 29 installations.

The AF BRAC Asbestos line (Section C, line 4) decreased by 46% from 2014, as the following projects continued to be liquidated during 2015: discovery of asbestos requiring abatement at former Chanute AFB and former Brooks City Base.

### Emerging Contaminants

The DERP program identified an emerging contaminant, fire fighting foam, in FY 2015. The analysis only recently began as of the end of the fiscal year, and the results of the analysis may impact future estimates.

### Programmatic Changes

Due to programmatic changes being implemented within the OEL program, updates to the cost estimates associated with those line items are expected in FY 2016.

### Cleanup costs associated with friable versus nonfriable asbestos.

The Air Force’s tangible property, plant, and equipment contains nonfriable asbestos. At this time the Air Force is unable to reasonably estimate the clean-up costs but is working to estimate these costs by 4<sup>th</sup> Quarter FY 2017.

<b>Note 15.</b>	<b>Other Liabilities</b>
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As of September 30

	2015		
	Current Liability	Noncurrent Liability	Total

(Amounts in thousands)

**1. Intragovernmental**

A. Advances from Others	\$ 720,234	\$ 0	\$ 720,234
B. Deposit Funds and Suspense Account Liabilities	(2,492)	0	(2,492)
C. Disbursing Officer Cash	68,239	0	68,239
D. Judgment Fund Liabilities	76,006	0	76,006
E. FECA Reimbursement to the Department of Labor	100,160	123,995	224,155
F. Custodial Liabilities	0	7,571	7,571
G. Employer Contribution and Payroll Taxes Payable	62,328	0	62,328
H. Other Liabilities	27,918	0	27,918
I. Total Intragovernmental Other Liabilities	<u>\$ 1,052,393</u>	<u>\$ 131,566</u>	<u>\$ 1,183,959</u>

**2. Nonfederal**

A. Accrued Funded Payroll and Benefits	\$ 1,762,565	\$ 0	\$ 1,762,565
B. Advances from Others	122,733	0	122,733
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	86,091	0	86,091
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,513,396	0	2,513,396
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	205,512	0	205,512
J. Employer Contribution and Payroll Taxes Payable	205,273	0	205,273
K. Contingent Liabilities	0	2,592,816	2,592,816
L. Other Liabilities	(13)	0	(13)
M. Total Nonfederal Other Liabilities	<u>\$ 4,895,557</u>	<u>\$ 2,592,816</u>	<u>\$ 7,488,373</u>

**3. Total Other Liabilities**

	<u>\$ 5,947,950</u>	<u>\$ 2,724,382</u>	<u>\$ 8,672,332</u>
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As of September 30	2014		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 824,878	\$ 0	\$ 824,878
B. Deposit Funds and Suspense Account Liabilities	291,367	0	291,367
C. Disbursing Officer Cash	251,110	0	251,110
D. Judgment Fund Liabilities	78,793	0	78,793
E. FECA Reimbursement to the Department of Labor	105,143	126,444	231,587
F. Custodial Liabilities	0	3,695	3,695
G. Employer Contribution and Payroll Taxes Payable	49,875	0	49,875
H. Other Liabilities	31,338	0	31,338
I. Total Intragovernmental Other Liabilities	<u>\$ 1,632,504</u>	<u>\$ 130,139</u>	<u>\$ 1,762,643</u>
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 1,811,396	\$ 0	\$ 1,811,396
B. Advances from Others	82,212	0	82,212
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	78,746	0	78,746
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,610,081	0	2,610,081
H. Capital Lease Liability	1,836	6,535	8,371
I. Contract Holdbacks	238,905	0	238,905
J. Employer Contribution and Payroll Taxes Payable	232,018	0	232,018
K. Contingent Liabilities	0	2,111,257	2,111,257
L. Other Liabilities	135	0	135
M. Total Nonfederal Other Liabilities	<u>\$ 5,055,329</u>	<u>\$ 2,117,792</u>	<u>\$ 7,173,121</u>
<b>3. Total Other Liabilities</b>	<u><b>\$ 6,687,833</b></u>	<u><b>\$ 2,247,931</b></u>	<u><b>\$ 8,935,764</b></u>



## Capital Lease Liability

As of September 30	2015			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
<b>1. Future Payments Due</b>				
A. 2015	\$ 0	\$ 0	\$ 0	\$ 0
B. 2016	0	0	0	0
C. 2017	0	0	0	0
D. 2018	0	0	0	0
E. 2019	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0
H. Less: Imputed Interest Executory Costs	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>				\$ 0
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>				\$ 0

As of September 30	2014			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
<b>1. Future Payments Due</b>				
A. 2014	\$ 2,172	\$ 0	\$ 0	\$ 2,172
B. 2015	8,688	0	0	8,688
C. 2016	0	0	0	0
D. 2017	0	0	0	0
E. 2018	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	\$ 10,860	\$ 0	\$ 0	\$ 10,860
H. Less: Imputed Interest Executory Costs	317	0	0	317
I. Net Capital Lease Liability	\$ 10,543	\$ 0	\$ 0	\$ 10,543

<b>2. Capital Lease Liabilities Covered by Budgetary Resources</b>	\$	8,371
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources</b>	\$	0

**Relevant Information for Comprehension**

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

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

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

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

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

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

Contingent Liabilities includes \$2.6 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Air Force has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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

The abnormal balance of \$2.5 million in Deposit Funds and Suspense Account Liabilities is due to a large decrease in Intragovernmental Other Liabilities. A large disbursement was made during 2Q FY 2015 which decreased liabilities for budget clearing accounts.

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

<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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The Air Force is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

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

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$313.1 million. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administered by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

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

The amount of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment is \$1.3 billion.

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

The estimated probable liability amount of \$2.6 billion was recognized in Note 15 as contingent liabilities.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of September 30, 2015, valued at \$386.1 million, included in Nonfederal Contingent Liabilities. As of September 30, 2015, the Air Force was party to 1,694 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select Federal Government personnel disciplinary matters.

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

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

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
<b>1. Pension and Health Benefits</b>			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>2. Other Benefits</b>			
A. FECA	\$ 1,079,798	\$ 0	\$ 1,079,798
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	4,082	(4,082)	0
E. Total Other Benefits	<u>\$ 1,083,880</u>	<u>\$ (4,082)</u>	<u>\$ 1,079,798</u>
<b>3. Total Military Retirement and Other Federal Employment Benefits:</b>	<u>\$ 1,083,880</u>	<u>\$ (4,082)</u>	<u>\$ 1,079,798</u>

As of September 30	2014		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
<b>1. Pension and Health Benefits</b>			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>2. Other Benefits</b>			
A. FECA	\$ 1,160,018	\$ 0	\$ 1,160,018
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	4,213	(4,213)	0
E. Total Other Benefits	<u>\$ 1,164,231</u>	<u>\$ (4,213)</u>	<u>\$ 1,160,018</u>
<b>3. Total Military Retirement and Other Federal Employment Benefits:</b>	<u>\$ 1,164,231</u>	<u>\$ (4,213)</u>	<u>\$ 1,160,018</u>

## Relevant Information for Comprehension

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

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

Interest rate assumptions utilized for discounting were as follows:

### Discount Rates

3.134% in Year 1  
 3.134% in Year 2  
 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors [Cost of Living Adjustment (COLA)] and medical inflation factors [Consumer Price Index Medical (CPIM)] were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2015 were also used to adjust the methodology's historical payments to current-year constant dollars.

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

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2015	N/A	N/A
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020	1.65%	3.69%
and thereafter		

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2015 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in FY 2015 projection to the average pattern for the projections of the most recent three years.

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

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

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

**Intragovernmental Costs and Exchange Revenue**

As of September 30	2015	2014
(Amounts in thousands)		
<b>Military Retirement Benefits</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
<b>Civil Works</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 0	\$ 0
B. Nonfederal Cost	0	0
C. Total Cost	<u>\$ 0</u>	<u>\$ 0</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ 0	\$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	<u>\$ 0</u>	<u>\$ 0</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 0</u>	<u>\$ 0</u>
<b>Military Personnel</b>		
1. Gross Cost		
A. Intragovernmental Cost	\$ 7,708,810	\$ 8,220,497
B. Nonfederal Cost	26,668,864	27,411,454
C. Total Cost	<u>\$ 34,377,674</u>	<u>\$ 35,631,951</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (440,174)	\$ (410,066)
B. Nonfederal Revenue	(30,675)	(80,556)
C. Total Revenue	<u>\$ (470,849)</u>	<u>\$ (490,622)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 33,906,825</u>	<u>\$ 35,141,329</u>

**Operations, Readiness & Support**

1. Gross Cost			
A. Intragovernmental Cost	\$	(2,570,962)	\$ (1,129,063)
B. Nonfederal Cost		57,135,425	52,033,765
C. Total Cost	\$	54,564,463	\$ 50,904,702
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(121,782)	\$ (526,397)
B. Nonfederal Revenue		(209,991)	(580,531)
C. Total Revenue	\$	(331,773)	\$ (1,106,928)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	54,232,690	\$ 49,797,774

**Procurement**

1. Gross Cost			
A. Intragovernmental Cost	\$	18,225,378	\$ 18,006,838
B. Nonfederal Cost		28,589,362	30,259,254
C. Total Cost	\$	46,814,740	\$ 48,266,092
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(422,935)	\$ (347,996)
B. Nonfederal Revenue		(890,722)	(1,909,668)
C. Total Revenue	\$	(1,313,657)	\$ (2,257,664)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	45,501,083	\$ 46,008,428

**Research, Development, Test & Evaluation**

1. Gross Cost			
A. Intragovernmental Cost	\$	10,351,339	\$ 10,270,248
B. Nonfederal Cost		14,571,608	14,811,884
C. Total Cost	\$	24,922,947	\$ 25,082,132
2. Earned Revenue			
A. Intragovernmental Revenue	\$	(3,038,454)	\$ (2,332,701)
B. Nonfederal Revenue		(54,681)	7,336
C. Total Revenue	\$	(3,093,135)	\$ (2,325,365)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0	\$ 0
Total Net Cost	\$	21,829,812	\$ 22,756,767



**Family Housing & Military Construction**

1. Gross Cost		
A. Intragovernmental Cost	\$ 46,099	\$ 79,435
B. Nonfederal Cost	1,300,284	1,164,459
C. Total Cost	<u>\$ 1,346,383</u>	<u>\$ 1,243,894</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (3)	\$ (23)
B. Nonfederal Revenue	0	(2,915)
C. Total Revenue	<u>\$ (3)</u>	<u>\$ (2,938)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	<u>\$ 1,346,380</u>	<u>\$ 1,240,956</u>

**Consolidated**

1. Gross Cost		
A. Intragovernmental Cost	\$ 33,760,664	\$ 35,447,955
B. Nonfederal Cost	128,265,543	125,680,816
C. Total Cost	<u>\$ 162,026,207</u>	<u>\$ 161,128,771</u>
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (4,023,348)	\$ (3,617,183)
B. Nonfederal Revenue	(1,186,069)	(2,566,334)
C. Total Revenue	<u>\$ (5,209,417)</u>	<u>\$ (6,183,517)</u>
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
4. Costs Not Assigned to Programs	\$ 0	\$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	\$ 0	\$ 0
Total Net Cost	<u>\$ 156,816,790</u>	<u>\$ 154,945,254</u>

**Relevant Information for Comprehension**

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

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

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

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

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

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

In 2015, Operations, Readiness & Support reported an abnormal balance for Intragovernmental Cost in the amount of \$2.6 billion. \$1.1 billion in abnormal intragovernmental costs was also reported in FY 2014. Both abnormals are due to the eliminations process. Due to system and process limitation, the current business practice is to report most elimination in this program group resulting in the abnormal balance presentation.

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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Non-exchange revenue includes an abnormal balance of \$3.1 million in USSGL 59000- Other Revenue. The abnormal is primarily due to the FY 2015 change in the presentation of non-exchange other revenue. Amounts without a budgetary impact are now reported on the Other Financing Sources, Other line.

Other Financing Sources, Other is comprised of unsupported adjustments to reconcile reported intragovernmental transfers, the majority of which are recorded at the Air Force Component level, as the respective federal partners could not be identified nor the transfers reconciled.

The Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$186.9 million.

Period Ended September 30, 2015 (\$ in millions)		
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	\$	152,964.7
Appropriations Received, Statement of Changes in Net Position	\$	152,777.8
Total Reconciling Amount	\$	186.9
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent Reductions	\$	497.5
Items Reported as Additions to Appropriations, Statement of Budgetary Resources		
Transfers	\$	647.6
Items Not Reported as Appropriations Received on the Statement of Changes in Net Position		
Dedicated appropriations and earmarked receipts	\$	36.8
Total Reconciling Items	\$	186.9

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of September 30 (Amounts in thousands)	2015	2014
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 83,910,292	\$ 86,543,625
2. Available Borrowing and Contract Authority at the End of the Period	0	0

**Relevant Information for Comprehension****Apportionment Categories**

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

	Category A	Category B	Exempt
Direct	\$92.0 billion	\$58.6 billion	\$38.2 million
Reimbursable	\$5.9 billion	\$3.5 billion	\$ 0 million

**Intraentity Transactions**

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

**Permanent Indefinite Appropriations**

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

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

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

**Appropriations Received**

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

<b>Note 21.</b>	<b>Reconciliation of Net Cost of Operations to Budget</b>
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As of September 30

2015

2014

(Amounts in thousands)

<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated:			
1. Obligations incurred	\$	159,986,111	\$ 162,763,417
2. Less: Spending authority from offsetting collections and recoveries (-)		(14,981,201)	(13,095,415)
3. Obligations net of offsetting collections and recoveries	\$	145,004,910	\$ 149,668,002
4. Less: Offsetting receipts (-)		(5,987)	(165,256)
5. Net obligations	\$	144,998,923	\$ 149,502,746
Other Resources:			
6. Donations and forfeitures of property		0	0
7. Transfers in/out without reimbursement (+/-)		(3,094,770)	256,135
8. Imputed financing from costs absorbed by others		645,519	818,188
9. Other (+/-)		2,293,122	(5,732,825)
10. Net other resources used to finance activities	\$	(156,129)	\$ (4,658,502)
<b>11. Total resources used to finance activities</b>	<b>\$</b>	<b>144,842,794</b>	<b>\$ 144,844,244</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:			
12a. Undelivered Orders (-)	\$	2,633,333	\$ (2,714,628)
12b. Unfilled Customer Orders		11,382	130,877
13. Resources that fund expenses recognized in prior Periods (-)		(216,283)	(763,250)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		(257,098)	165,256
15. Resources that finance the acquisition of assets (-)		(6,894,252)	(5,822,719)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:			
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0	0
16b. Other (+/-)		990,749	5,375,684
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$</b>	<b>(3,732,169)</b>	<b>\$ (3,628,780)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$</b>	<b>141,110,625</b>	<b>\$ 141,215,464</b>

As of September 30

2015

2014

(Amounts in thousands)

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

## Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	26,500	\$	4,907
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		632		0
23. Other (+/-)		387,234		80,487
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	414,366	\$	85,394

## Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	12,993,749	\$	15,693,192
26. Revaluation of assets or liabilities (+/-)		578,810		716,891
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		37,366,892		25,279,236
27d. Other		(35,647,652)		(28,044,923)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	15,291,799	\$	13,644,396

**29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period**      \$      15,706,165      \$      13,729,790

**30. Net Cost of Operations**      \$      156,816,790      \$      154,945,254

### Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost is (\$23.4) million in the Other Components Not Requiring or Generating Resources category.

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

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

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

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

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

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

<b>Note 22.</b>	<b>Disclosures Related to Incidental Custodial Collections</b>
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The Air Force collected \$129.5 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. These funds are not available for use by Air Force. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

**Note 23. Funds from Dedicated Collections**

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



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

### Relevant Information for Comprehension

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

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

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

#### Wildlife Conservation Fund [16 USC 670 (a)]

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

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

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

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

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

<b>BALANCE SHEET</b> As of September 30	2014				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total

**ASSETS**

Fund balance with Treasury	\$	0	\$	0	\$	31,414	\$	0	\$	31,414
Investments		0		0		954		0		954
Accounts and Interest Receivable		0		0		(73)		0		(73)
Other Assets		0		0		1,035		0		1,035
<b>Total Assets</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>33,330</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>33,330</b>

**LIABILITIES and NET POSITION**

Accounts Payable and Other Liabilities		0		0		168		32		200
<b>Total Liabilities</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>168</b>	<b>\$</b>	<b>32</b>	<b>\$</b>	<b>200</b>

Unexpended Appropriations		0		0		0		0		0
Cumulative Results of Operations		0		0		33,162		7,979		41,141
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>33,330</b>	<b>\$</b>	<b>8,011</b>	<b>\$</b>	<b>41,341</b>

**STATEMENT OF NET COST**  
For the period ended September 30

Program Costs	\$	0	\$	0	\$	6,888	\$	(4,005)	\$	2,883
Less Earned Revenue		0		0		(316)		0		(316)
<b>Net Program Costs</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>6,572</b>	<b>\$</b>	<b>(4,005)</b>	<b>\$</b>	<b>2,567</b>
Less Earned Revenues Not Attributable to Programs		0		0		0		0		0
<b>Net Cost of Operations</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>6,572</b>	<b>\$</b>	<b>(4,005)</b>	<b>\$</b>	<b>2,567</b>

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2014				
	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
Net Position Beginning of the Period	\$ 0	\$ 0	\$ 32,260	\$ 0.00	\$ 32,260
Net Cost of Operations	0	0	6,572	(4,005)	2,567
Budgetary Financing Sources	0	0	11,448	0.00	11,448
Other Financing Sources	0	0	(3,974)	3,974	0
Change in Net Position	\$ 0	\$ 0	\$ 902	\$ 7,979	\$ 8,881
Net Position End of Period	\$ 0	\$ 0	\$ 33,162	\$ 7,979	\$ 41,141

<b>Note 24.</b>	<b>Fiduciary Activities</b>
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<b>Schedule of Fiduciary Activity</b>
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For the period ended September 30	2015	2014
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	\$ 1,678	\$ 33,091
2. Fiduciary revenues	0	0
3. Contributions	4,368	5,362
4. Investment earnings	0	0
5. Gain (Loss) on disposition of investments, net	0	0
6. Administrative and other expenses	0	0
7. Distributions to and on behalf of beneficiaries	(4,057)	(36,775)
8. Increase/(Decrease) in fiduciary net assets	\$ 311	\$ (31,413)
<b>9. Fiduciary net assets, end of period</b>	<b>\$ 1,989</b>	<b>\$ 1,678</b>

<b>Schedule of Fiduciary Net Assets</b>
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For the period ended September 30	2015	2014
(Amounts in thousands)		
<b>FIDUCIARY ASSETS</b>		
1. Cash and cash equivalents	\$ 1,989	\$ 1,678
2. Investments	0	0
3. Other Assets	0	0
<b>FIDUCIARY LIABILITIES</b>		
4. Less: LIABILITIES	\$ 0	\$ 0
<b>5. TOTAL FIDUCIARY NET ASSETS</b>	<b>\$ 1,989</b>	<b>\$ 1,678</b>

#### Relevant Information for Comprehension

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

<b>Note 25.</b>	<b>Other Disclosures</b>
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As of September 30	2015 Asset Category			
	Land and Buildings	Equipment	Other	Total

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

Future Payments  
Due

Fiscal Year

2016	31,680	0	14,777	46,457
2017	30,236	0	14,924	45,160
2018	25,990	0	15,074	41,064
2019	13,848	0	15,203	29,051
2020	12,733	0	15,400	28,133
After 5 Years	12,568	0	15,402	27,970

**Total Future Lease  
Payments Due**

\$	127,055	\$	0	\$	90,780	\$	217,835
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**Relevant Information for Comprehension**

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

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

<b>Note 26.</b>	<b>Restatements</b>
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Not applicable for 2015.

# **General Fund**

Fiscal Year 2015

Required Supplementary  
Stewardship Information

## STEWARDSHIP INVESTMENTS

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

### NONFEDERAL PHYSICAL PROPERTY

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

<b>NONFEDERAL PHYSICAL PROPERTY</b>					
Yearly Investment in State and Local Governments					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	\$ 13.9	\$ 12.7	\$ 12.3	\$ 7.6	\$ 12.0
<b>Totals</b>	<b>\$ 13.9</b>	<b>\$ 12.7</b>	<b>\$ 12.3</b>	<b>\$ 7.6</b>	<b>\$ 12.0</b>

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

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

## RESEARCH AND DEVELOPMENT

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

<b>INVESTMENTS IN RESEARCH AND DEVELOPMENT</b>					
Yearly Investment in Research and Development					
For the Current and Four Preceding Fiscal Years					
(\$ in millions)					
Categories	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
1. Basic Research	\$ 539	\$ 511	\$ 473	\$ 494	\$ 475
2. Applied Research	1,090	1,124	1,024	1,120	1,175
3. Development:					
Advanced Technology Development	606	624	582	598	546
Advanced Component Development and Prototypes	1,363	936	1,105	1,179	1,981
System Development and Demonstration	3,517	4,382	4,504	2,783	3,137
Research, Development, Test and Evaluation					
Management Support	1,495	1,418	1,114	1,270	1,440
Operational Systems Development	15,010	14,864	14,665	14,913	18,653
<b>Totals</b>	<b>\$ 23,620</b>	<b>\$ 23,859</b>	<b>\$ 23,467</b>	<b>\$ 22,357</b>	<b>\$ 27,407</b>

## RESEARCH AND DEVELOPMENT

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

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

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

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



1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed towards proof of technological visibility and assessment of operational and productivity rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapon systems finalized for complete operational and developmental testing.

4. Research, Development, Test and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. Operational System Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

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

**Basic Research:**

The Air Force Research Laboratory (AFRL) demonstrated the first microscope capable of high resolution imaging of 1000 fermion particles simultaneously. This breakthrough is key to the development of a quantum computer based on fermions.

AFRL has demonstrated a new heat-resistant battery utilizing a Kevlar membrane capable of 20% increase in storage capacity. The Kevlar membrane is thinner, stronger, and safer with better temperature resistance than existing battery membranes. The battery technology is being commercialized, and there is high interest from the industrial community.

### **Applied Research:**

AFRL successfully developed a new high-strength, high-toughness steel that is approximately 50% of the cost of the highest strength material (Eglin Steel) used in current penetrator programs. Material development was achieved through a 6.2 in-house materials development program and is 100% government owned. Due to pull from AFLCMC, material was scaled from 100lb experimental heats to a 250,000lb production heat for AFLCMC's Advanced 2,000lb penetrator program in less than one year. Not only is the steel less costly, it is also easier to produce, less energy-intensive, and easier to recycle than other steels of similar strength/toughness combinations.

AFRL conducted low-speed wind tunnel tests of 9%-scale model completed at NASA Langley Research Center (LaRC); data validated analytical prediction tools for this new and novel aerodynamic design which has the potential to reduce fuel consumption 60% for future mobility, tanker, and bomber platforms in a configuration and shape also providing increased survivability in combat environments and enabling operations from austere airfields.

### **Advanced Technology Development:**

Hydrocarbon Boost Demo sub-scale Preburner ground rig test data and operational experience guided final design of the full-scale pre-burner, a major component of an advanced liquid oxygen (LOX)/liquid kerosene (RP-1) rocket engine cycle ground demo expected in 2021. The resulting technologies enable and support domestic space launch, including mid-term replacement of the RD-180 propulsion system on EELV Atlas V and mid to far-term future Air Force and commercial expendable or re-usable space launch vehicles. AFRL's Hydrocarbon Boost Demo Preburner is being used to support an SMC and NASA Thrust Chamber combustion stability demonstration supporting SMC risk reduction efforts toward a future launch vehicle engine.

The culmination of 8 years of technology development resulted in the transition of AFRL time delay beamsteering technology to the Rivet Joint platform. The incorporation of phased arrays significantly increases sensitivity for detecting weak signals of interest thus improving platform operational effectiveness. The novel AFRL approach using integrated circuit technology resulted in a 13x reduction in size over previous hardware solutions on the platform. The technology was transferred to L3-Comcept through a Cooperative Research and Development Agreement and provided a means to deliver a low band multi-beam phased array solution to the Big Safari platform, now at TRL 9 and flying in theater.

AFRL's Battlefield Air Targeting Man-Aided Knowledge (BATMAN-II) team delivered an innovative power converter to the 66th Weapons Squadron Joint Terminal Attack Controller (JTAC) Advanced Instructors Course in response to an urgent warfighter need for powering mobile devices potentially reducing cable costs by \$2M across JTAC platforms and expanding mobile device operation usage by 95 hours. The BATMAN-II team also delivered a new wireless mobile monitoring capability designed for dismounted Pararescue Jumpers (PJ) called

Battlefield Airmen Trauma Distributed Observation Kit (BATDOK). BATDOK receives, tracks, transmits and displays continuous health data for up to 7 patients simultaneously and generates overt/covert notifications alerting the PJ when a monitored patient needs medical intervention, thus improving patient care and survivability. ACC has instructed the Guardian Angel Program Office to begin fielding the BATDOK system.

### **Advanced Component Development and Prototypes (ACD&P):**

#### **Military Global Positioning System User Equipment Increment 1**

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

MGUE Increment 1 is in the Technology Development phase; Increment 2 received a Materiel Development Decision and authority to enter into the Materiel Solution Analysis phase in accordance with the Acquisition Decision Memorandum (ADM) dated 9 Apr 2012. Technology maturation showed MGUE beyond the typical Technology Development phase which provides the opportunity to accelerate delivery of M-Code capability to the warfighter up to five years ahead of schedule. As a result, OUSD(AT&L) approved a commercial market driven acquisition strategy for Increment 1 that enables the program to go directly from Technology Development and Milestone B approval into production. Preparations are now underway to begin Lead Platform integration. Three of the four Lead Platform Support Agreements are complete.

#### **Space Security and Defense Program**

The Space Security and Defense Program (SSDP) is a Joint Department of Defense (DoD) and Office of the Director of National Intelligence (ODNI) organization established to function as the center of excellence for options and strategies (materiel, non-materiel, cross-community, cross-domain) leading to a more resilient and enduring National Security Space (NSS) Enterprise. In FY15, SSDP completed efforts resulting in the delivery and implementation of actionable solutions for key mission areas: Threat Mitigation, Strategic Protection, and Satellite Communication (SATCOM) Resiliency Enhancement. Specific efforts include:

- Chartered by OSD-CAPE to conduct the analysis for the 2105 Space Strategic Portfolio Review. This analysis and out-brief specifically addressed Space Situational Awareness architectures and mission gaps as well as recommendations going forward for the investments made in the joint DoD and ODNI communities.
- Applied existing processes to address additional priority space protection issues for Advanced Space Combat Tactics, Counter Network Exploitation Analysis, Wideband

Global SATCOM (WGS) Defense Exploration, and Geosynchronous Earth Orbit (GEO) Catalog Expansion.

- Provided policy-makers specialized technical assistance, protection-specific data/findings, and validated recommendations regarding the impacts that policy/strategy changes may have on our protection of NSS capabilities.
- Initial software code for SATCOM Resiliency Enhancement updated, to include revised operational techniques. Functional qualification testing and other efforts to integrate the enhancements into the ground-based WGS planning process all executed in FY15.
- Supported wargames and exercises to refine Tactics, Techniques, and Procedures (TTPs) and Concept of Operations (CONOPS) for space-protection tenets, and developed/integrated rapid prototyping capabilities for key mission areas.
- Developed and delivered validated response options to Combatant Commanders (CCMDRs) for various threats.
- Provided strategic messages for a variety of key DoD and Intelligence Community (IC) activities.

#### Ground Based Strategic Deterrent (GBSD)

Minuteman III replacement activities began in FY15 with the GBSD effort. The ICBM Dem/Val program funds the identification, maturation and testing of technologies in areas such as solid and liquid (post boost) rocket booster propellants, casings, nozzles; strategic guidance instrument advancement in accelerometers, gyroscopes, and inertial measurement units; reentry vehicle thermal protection systems; and advanced command and control efforts to replace the aging current configuration. The efforts support validated requirements and are candidates for incorporation in a GBSD system expected to begin fielding in 2028 and remain operational through 2075.

#### International Cooperative Research & Development

Headquarters Department of Air Force's (HAF) International Cooperative Research and Development (ICR&D) Program provides supplementary financing capital to United States Air Force (USAF) research and development (R&D) organizations to incentivize international bilateral and / or multilateral collaborative Research, Development, Test, and Evaluation (RDT&E) ventures. The ICR&D Program currently consists of two Program Elements (PEs); NATO International Cooperative R&D PE 0603790F and NATO International Space Cooperative R&D (ISCR&D) PE 0603791F. Beginning in Fiscal Year (FY) 2016, the NATO ICR&D and the ISCR&D will merge into one PE titled NATO Cooperative R&D. The impetus for the programs' consolidation is to prudently channel HAF resources and address the practical fiscal environment. The ICR&D Program yields the HAF a return on its investment on average by a factor of three.

All ICR&D projects are selected for two-year funding. The Air Force funded numerous FY14-15 international cooperative efforts. To highlight a few, two ongoing ICR&D-funded activities include the First Generation Quad-Stimulus Laser Eye Protection (Quad-Stim) and Air Vehicle

Integrated Energy and Power Management Modeling and Simulation (IEPM) projects. The Quad-Stim project with the United Kingdom identifies a capability shortfall in Laser Eye Protection (LEP) by creating a new LEP filter solution resulting in improved transmittance in color neutral format and assures freedoms of maneuver and access against adversarial threats within the operational environment. The IEPM project with the Netherlands focuses on verified and validated integrated energy, a power management modeling and simulation capability to optimize air vehicle efficiency for legacy and future aircraft.

One ISCR&D-funded activity to highlight is the Robust Affordable Networked Global Navigation Satellite System Receiver for Military Applications (RANGR) with the United Kingdom. This project is developing and will deliver a prototype network-enabled Global Navigation Satellite System (GNSS) receiver that demonstrates enhanced operational effectiveness by leveraging existing and planned deployments of U.S. and foreign GNSS open (civilian) signals and incorporating cooperative networking to increase position, navigation, and timing (PNT) availability and accuracy in otherwise GPS-only denied or degraded environments.

Despite FY15's severe fiscal constraints, the ICR&D Program selected ten new projects for FY15 ICR&D funding. These projects involve cooperative R&D and interoperability efforts with eight foreign partners, including Canada, Singapore, the United Kingdom, Sweden, Australia, Germany, France, and Italy. Selected FY15 ICR&D Projects are aligned with 6 out of the 7 DoD Science and Technology's Priority Areas, 4 out of the 5 Assistant Secretary of Defense Research and Engineering (ASD R&E) Strategic Priorities, and the 2011 Air Force Global Partnership Strategy. The ICR&D Program funded \$4.8M, while leveraging \$13.75M from Foreign Partners' matching contributions.

Highlighting one of the ten new FY15 projects, the Time Critical Targeting in Urban Environments (TCTUE) project, a multilateral effort with Germany and Italy under the 5-Power Consortium, will improve target engagement in an urban environment in a time critical manner using shared airborne platforms. Also, ICR&D funds continue to augment the USAF's enduring cooperative relationship with the UK in Advanced Rotary Engine for UAVs. This concerted approach researches the potential of amplifying a rotary engine's power output and durability through turbocharging and heat transfer, thereby increasing engine efficiencies.

FY15 ICR&D projects also reflect the Pacific rebalance accentuated in DoD and USAF Strategies. ICR&D monies continue USAF's unwavering relationship with Australia in the Flight Information eXchange Model (FIXM). This project provides Joint Mission Planning System (JMPS) with the capability to calculate and display routes of flight using an international standard. ICR&D projects involve three collaborative initiatives with Singapore: Environmental Health and Safety of Advanced Nanomaterials (Nanomaterials Safety); Panchromatic Materials for Optical Sensor Protection; and Modeling Fatigue for Prolong Driving. These dynamic pioneering projects range in evaluating the lifecycle of nanomaterials; exploring new methods in developing sensor protection against pulsed radiation; and developing and validating a computational process model that simulates the impact of fatigue on human cognition and behavior

## **System Development and Demonstration:**

### KC-46

The KC-46 is the next generation Aerial Refueling Tanker and will replace approximately one third of the aging KC-135 Stratotanker fleet. The aircraft is a militarized commercial derivative of the Boeing 767-200. The KC-46 will provide aerial refueling support to the Air Force, Navy, and Marine Corps as well as allied nation coalition force aircraft, plus increased capabilities for cargo and aeromedical evacuation. Significant FY2015 accomplishments include:

- Engineering & Manufacturing Design (EMD) Aircraft: Began Developmental Test and Evaluation (DT&E) with the first flights of EMD #1 (767-2C configuration) and EMD #2 (KC-46 configuration). Two additional EMD aircraft, EMD #3 (767-2C configuration) and EMD #4 (KC-46 configuration), will join DT&E with their first flight expected in 2QFY2016. The program continues to proceed deliberately toward Milestone C; currently anticipated for 3QFY2016.
- Basing: The program remains on track to announce the final basing decision for Main Operating Base (MOB) #3 in summer 2016. Final basing announcements were previously made for the Formal Training Unit (FTU), MOB #1 and MOB #2 at Altus AFB (OK), McConnell AFB (KS) and Pease ANGB (NH) respectively.

### Advanced Extremely High Frequency

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

On 28 July 2015, the Commander of Air Force Space Command declared Initial Operational Capability (IOC) for the AEHF program. IOC includes mission supported, active networks and two separate satellites operating in the AEHF mode. The operational control segment consists of one fixed and one transportable control element and an interim fully operational communications management system. Mission Planning Element (MPE) Increment 7.6 was delivered to the government in June 2015. Preparations are currently underway to conduct Lead Development Test Organization testing on this release, making it available to operations by the end of the calendar year. The follow-on increment (MPE Increment 8) was awarded to Lockheed Martin on 1 July 2015 to resolve remaining deficiencies, integrate Family of Advanced Beyond-line-of-sight Terminals (FAB-T) and Global Assent terminals, and increase system capacity. Lockheed Martin was also awarded Tech Refresh of the Mission Control Segment to provide replacement Commercial Off-the-Shelf (COTS) hardware to the operations floors and representative configurations to the Depot & Sustainment system on 1 July 2015.

## Space Based Infrared System (SBIRS)

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

GEO-1 and GEO-2 satellites were accepted for missile warning operations in November 2013, joining the previously certified HEO-1 and -2 payloads as part of the SBIRS constellation, providing greater capabilities than legacy systems. The HEO-3 payload is now on orbit while HEO-4 payload completed production and was delivered to the host satellite for integration in May 2105. GEO-3 satellite completed production in June 2015 and was delivered into storage; GEO satellites 4, 5 and 6 continue in production. SBIRS GEO Flight 3 is currently manifested for a July 2016 launch.

The SBIRS ground segment continued its consolidation into a single Mission Control Station (MCS) and Backup (MCS-B), completing hardware and software integration and evaluation at both sites in 2015 and is proceeding towards operational acceptance in fall of 2016.

Space Modernization Initiative (SMI) invests in sustaining, enhancing and evolving SBIRS. SMI improves performance of the current system and matures technologies for insertion into future satellites and payloads. SMI is ameliorating parts obsolescence, improving ground processing and intelligence integration of SBIRS on-orbit data, and developing improved sensor technologies.

## Space Fence

Space Fence is a system of ground-based sensors to improve upon the former Air Force Space Surveillance System, a Very High Frequency radar operational from 1961 to 2013. The Space Fence will provide a more accurate and timely detection capability of smaller orbiting objects, primarily in low-earth orbit. The system will use higher frequency S-band radars at globally dispersed sites. As a result, it will greatly expand the uncued detection and tracking capability of the Space Surveillance Network from around 20,000 to up to 100,000+ objects, while working in concert with other network sensors. Increment 1/Initial Operational Capability (IOC) will consist of successful operations at the first radar site located in the Kwajalein Atoll and the Space Fence Operations Center (SOC) at Huntsville, AL. Ground breaking took place on Kwajalein Atoll in February 2015. Critical Design Review (CDR) was completed in June 2015 and construction is underway. IOC is currently planned for late CY2018. Increment 2 will include completion of the second OCONUS radar, pending funding determinations and negotiations with the proposed host nation.

## Air Operations Center (AOC) Weapon System

The Air Operations Center (AOC) Weapon System is the primary tool used by the Joint or Combined Forces Air Component Commander (J/CFACC) to plan, execute, monitor and assess air, space, and cyberspace operations. The primary role for the seven geographic AOCs is to provide the theater Joint Forces Commander the tools necessary to execute missions across all spectrums of operations, from kinetic and non-kinetic warfare to humanitarian aid.

AOC 10.2 had its Milestone B decision in October 2013 and is currently in development. AOC 10.2 implements a Service Oriented Architecture (SOA) that will address both the current point-to-point integration and security shortfalls. SOA allows for seamless, one time integration of applications onto a highly secure and customizable baseline. This architecture change will greatly improve the Air Force's ability to integrate application updates or new applications as they become available. This baseline also allows for the most modern security advances to be effectively integrated into the system and will allow the Air Force to more easily improve system security as the threats continue to evolve. Contractor testing and the first Government developmental test have been conducted. Additional development and integration efforts are underway to prepare the system for the planned second Governmental developmental test and subsequent operational assessment. The results of this testing will support the Milestone C decision, and transition to the independent operational testing phase.

## B61-12 Tail kit Assembly

The B61-12 Tail kit Assembly (TKA) is a joint Department of Defense and Department of Energy (DOE) modernization program for a portion of the Nation's air-delivered leg of the nuclear triad. The DOE, through the National Nuclear Security Administration (NNSA) is conducting a modernization effort to life-extend the B-61 family of nuclear gravity bombs designated as the B61-12 Life Extension Program (LEP). The B61-12 LEP is combining four B61 variants into the -12. The Bomb Assembly (BA) design agencies are Sandia and Los Alamos National Laboratories for the LEP. In order to maintain the required military capability for all the of the B61 variants, the United States Air Force, through the efforts of the Air Force Nuclear Weapons Center, is developing a guided tailkit assembly to be mated to the NNSA Bomb Assembly (BA). The B61-12 TKA program achieved its Milestone B decision on 19 Nov 2012.

On 1 July 2015, the joint B61-12 modernization program conducted its first all up round flight test drop with an NNSA BA test asset and an Air Force developed tailkit. The test was successfully conducted and subsequent tests have also proved successful as the program progresses toward milestone C in FY18. The B61-12 is slated to become the only nuclear gravity weapon in the U.S. arsenal as outline in the Nuclear Weapons Council accepted 3+2 strategy.



## **Research, Development, Test and Evaluation Management Support:**

The Air Force's Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installations and operations required for testing at the Air Force Major Range and Test Facility Base (MRTFB) as well as for International Activities.

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

In FY15, the T&E enterprise struggled to maintain continuous 24/7 operations on the 96 TW range at Eglin AFB after budget reductions threatened to reduce range operating hours to 5-day/week, 16 hr/day. The T&E enterprise retained 58 civilian overhire positions and internally sourced \$2.844M non-pay to continue to operate the range and minimize impact on AFSOC and F-35 training. At both the 96 TW and 412 TW, one fourth of the F-16 test and test support fleet was reduced in FY15, impacting multiple test programs. The T&E enterprise continues to seek measures to mitigate the reduction. KC-46 testing required 3 deployed F-16s, severely impacting aircraft availability to support operations at the 412 TW's main operating base. F-16 test support aircraft availability is impacting USAF Test Pilot School, adding schedule pressure to class graduation dates. Efforts continue to obtain AF Reserve support to reduce test schedule impact to multiple acquisition programs requiring F-16 test support aircraft.

In FY 2015, AEDC continued the Advanced Large Military Engine Capability (ALMEC) project to improve large turbine engine ground test capability that supports F-35, F-22, F-15/16, FA-18, B-2, B-1, U2, and the Advanced Engine Technology Program. ALMEC completed installation of C-Plant main drive exciters, which control the start and operation of multiple 20MW electric motors, with modern controls to ensure long-term serviceability and parts availability. Further work was completed upgrading the C-Plant main electrical switchgear to replace manually actuated circuit breakers operating at 62,000 volts with modern remote systems that eliminate worker exposure to arc-flash conditions. The Improved Transonic Test Capability (IMTTC) effort for 16T transonic wind tunnel systems declared IOC for the Large Model Wings-Level yaw system. This project greatly reduces test set up time and increases test efficiency due to less downtime spent repositioning test articles in wind tunnel 16T. The Data Acquisition System (DAS), Test Article Control System (TACS) and data networks upgrade projects progressed from detailed design to procurement and installation. The Test Instrumentation, Data Systems & Control (TIDSC) project was restructured to support the Advanced Engine Technology Demonstrator project testing scheduled for FY17 by focusing on upgrades to engine altitude test cell J1's signal conditioning, digital temperature scanning, voltage measurement, and data distribution systems. Current funding levels do not support required upgrades to turbine engine test cell C2, solid rocket test cell J6, or sea-level test cells SL2 and SL3.

At the 412 TW, the Joint Airborne Instrumentation Integration (JAI) project completed hardware and data instrumentation system upgrades to KC-10, F-15 and F-16 instrumented airborne test platforms. Further work was completed on separation cameras, acquisition of long-lead data acquisition system components and prototyping of networked instrumentation systems to support ground infrastructure at 96 TW and 412 TW. The Common Range Integrated Instrumentation System (CRIIS) production project was initiated, to procure, integrate and adapt the Central Test and Evaluation Investment Program-developed hardware to specific flight test needs at 96 TW and 412 TW.

To support Electronic Warfare (EW) efforts, the Guided Weapons Evaluation Facility (GWEF) at the 96 TW continued to transition real-time simulation software and hardware upgrades from the developmental test area of the facility to the 3 operational lanes. This will allow higher test fidelity with the generation of more realistic threats for missile seeker head development. A new quad high-definition video capture system was tested on the developmental lane, allowing better test results while reducing computer infrastructure. Software development allowed the number of simultaneous IR threat generations to expand to 9 during engagement simulations. The facility's hydraulic power systems for the flight simulation tables were upgraded to increase serviceability. At Edwards AFB, the 412th Electronic Warfare Group fielded a new Digital Integrated Air Defense System (DIADS) software release, which improved tracker capability and scenario preparation. DIADS also continued development of advanced jamming capabilities and improved weapon command and control algorithms, and validated architecture and simulation upgrades to advance new capabilities to simulate evolving threats. The Advanced Warfare Test & Evaluation Capability (AWTEC) continued certification of Identify Friend or Foe (IFF) software for IFF Mode S and Mode 5, completed development of Advanced Global Navigation System upgrades for the main anechoic chamber, completed acceptance testing of the Radiated Susceptibility Test System (RSTS), and continued to upgrade the facility's advanced threat signal generation capabilities to support F-35 and other aircraft platform testing.

The Joint Gulf Range Area Network Development (JGRAND) at the 96 TW continued installation of fiber optical cable to connect test sites and to procure network protocol and security hardware to improve range data communication capabilities at the 96 TW. The Combined High-Speed/High-Resolution (CHSHR) Electro-optical/Infrared (EO/IR) Imaging project completed field verification of the upgraded cinetheodolites that provide IR and long-range precision optical tracking of flight test articles. The Next Generation Munitions Test Environment (NGMTE) project continued procurement and installation of new data acquisition and fragment scoring systems supporting the ballistic test ranges and one arena test range to improve gun and munitions test capabilities and meet Joint Munitions Effectiveness Model (JMEM) requirements. The facility's insensitive munitions test pad and drop tower upgrades continue construction and were 67% complete. Network routers, switches, firewalls and network monitoring tools were procured and installed for the Improved Command and Control (C2) Test Operations Center (I-C2TOC) project. The project is to develop net-centric C2 battle management operations capabilities, improve communication interfaces and data collection,

handling, analysis and display capabilities to support C4ISR end-to-end weapon system testing at Eglin AFB.

At Holloman AFB, the 96 TG continued National Radar Cross Section (RCS) Test Facility (NRTF) upgrades by completing the initial design and beginning procurement of a new digital receiver system. The project also procured and installed a high-power transmitter system to improve the relevance, accuracy, and efficiency of low radar cross section ground testing. The Landing Gear Test Facility (LGTF) modernization project was initiated to upgrade the primary test cell's wheels/brakes/tire dynamometer. The upgrade will add taxi loads and full takeoff/landing speeds ground test capabilities, along with reliability and control system upgrades.

The International Activities program element funds USAF activities to establish, sustain, expand, and enhance mutually beneficial international partnerships through the development of international armament cooperation (IAC) agreements in air, space, and cyber domains, thus supporting USAF and DoD goals and objectives. These International Agreements (IAs) will significantly improve US and allied conventional defense capacity and capabilities; accelerate the availability of defense systems; realize solutions to meet capability gaps; acquire, upgrade, sustain, and/or support common or interoperable equipment with our allies; create cooperative acquisition, production, or logistic partnerships; promote mutual and equitable sharing of effort, cost, information, and risk; provide operational access; leverage economies of scale; and promote interoperability and commonality with our allies. In FY15 SAF/IAPC leveraged these funds to negotiate and conclude 34 IAC agreements that leveraged \$207M from 11 foreign partners to meet current and emerging global strategic challenges through optimization of interoperability, integration, and interdependence between coalition forces.

This program element is the only source of USAF funds to identify, develop, process, negotiate, conclude, implement, and manage IAC opportunities to: (a) acquire, develop, upgrade, sustain, and support common or interoperable equipment with our allies; (b) leverage USAF resources through cost sharing and economies of scale with our partners; (c) exploit the best US and allied technologies for equipping coalition forces; and (d) foster interoperability and commonality with our allies. We obtain these benefits only after IAC opportunities are identified, explored, assessed, developed and IAs are negotiated and concluded. This PE provides funds to execute up-front IAC responsibilities, realize cooperative opportunities, assess allied technologies and generate sound, cost-effective cooperative programs between the USAF and our international partners in the areas of Air, Space and Cyberspace.

### **Operational System Development:**

#### **F-22 Raptor Program**

The Air Force's Operational System Development efforts include projects that support upgrades for the F-22 Raptor. The F-22 Raptor is in post-production and over the past year the fleet met several important milestones to include surpassing 200,000 flying hours, flying its first combat

sorties, and taking its first successful AIM-9X flight test shot. There are currently six activities in various stages of development that will enhance the F-22 Raptor's capabilities and enable the program to maintain its role as enabler of joint air dominance for years to come. These include Increment 3.1, Increment 3.2A, Increment 3.2B, Update 5, Update 6 and the Tactical Mandates (TACMAN) programs. Specifically, these modernization programs enhance the air vehicle, engine, and training systems to improve F-22 weapons, communications, and Intelligence Surveillance Reconnaissance (ISR) capabilities and further increase Global Strike capabilities. Increment 3.1 adds synthetic aperture radar, Small Diameter Bomb, electronic attack and geo-location enhancements. Increment 3.2A adds electronic protection, combat identification, and Link-16 enhancements. Increment 3.2B builds on these increments and adds AIM-9X, AIM-120D and improved geo-location and Intra-flight Data Link capabilities. In addition, two software only programming activities will lay in critical capabilities driven by real world evolving threats, safety of flight issues, and previous software deficiency reports. Specifically, the F-22's Operational Flight Program (OFP) Update 5 has finished development and is scheduled for fielding in FY16. Update 5 will add Auto Ground Collision Avoidance, AIM-9X Basic (lock-on before launch), and Intra-flight Data Link gateway capabilities. Update 6 modifies the F-22's OFP to meet future NSA crypto requirements and enhances its Link 16 interoperability functionality. Finally, the F-22's TACMAN program will deliver Mode 5 Identification, Friend or Foe Transmit and Interrogate as well as Link 16 transmit capabilities. FY15 activities included the continued fielding of the Increment 3.1 suite, completed fielding of Increment 3.2A, development of Increment 3.2B, completed development of Update 5, and continued development of Update 6 and TACMAN.

#### Minuteman III (MM III)

The Air Force has increased investment in the MM III weapon system ensuring its safe, secure and reliable operation until replacement by the GBSD. These efforts span 450 missile launch facilities and missiles, 45 launch control centers, and flight test, training and support equipment. The MM III weapon system has been in operation since the 1970's as a critical, ground-based leg of the U.S. nuclear triad. The most significant development effort is replacement of the Mk21/W87 warhead fuze in cooperation with similar Navy fuze development efforts employing Sandia National Laboratories as the design agent. Common Air Force/Navy fuze components completed preliminary design efforts in 2015. The W87 replacement fuze will be available in 2022 on MM III and see use in GBSD as well. In 2015, new development efforts were initiated to replace the airborne alternate launch control system, upgrades for mission equipment used by missile crews in underground launch control centers, replacement of flight test monitoring and flight destruct equipment used in MM III test launches, and replacement/upgrade of other training, ground test and depot level maintenance equipment. Development efforts were completed to replace outdated data handling equipment and older forms of data storage media. Efforts are ongoing to further improve launch and crypto code security and handling and replace outdated field-level reentry system maintenance equipment, payload and missile booster transportation tractor/trailer vehicles, and power distribution and backup systems. Replacement and upgrade equipment will be fielded in the 2016-2020 timeframe and be in service through

transition to GBSD. All MM III equipment will be assessed for continued use in supporting GBSD.

### Small Diameter Bomb II

Shrinking force structure, increased tasking, evolving threats, and collateral damage avoidance will drive a demand for a precision strike capability with a mission planned datalink equipped weapon. Small Diameter Bomb (SDB) II will provide strike aircraft with a capability to attack stationary and mobile targets through the weather with standoff capability while retaining miniature munition type weapon attributes (effective day/night, adverse weather, increased load-out, focused logistics, etc.) plus the capability to attack a range of stationary targets across the combat arena. The program is now 61 months into the 83-month EMD phase with developmental test and evaluation ground and flight testing underway. Testing during EMD is structured in a phased Test and Evaluation (T&E) approach with Phase I supporting verification of Normal Attack, Coordinate Attack, and Laser Illuminated Attack modes on the F-15E. Phase II supports integration of the full SDB II capability on the F-35B and F-35C. Operational testing will commence in 2017. The Low Rate Initial Production contract was awarded in Jun 15 to procure 144 SDB II weapons. Production will continue through FY25.

### Airborne Warning and Control System (AWACS)

The Airborne Warning and Control System (AWACS) aircraft continues to modernize its mission capabilities to remain an effective airborne battle management and surveillance system for command and control of combat forces. The primary development program within the AWACS portfolio is the Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification. DRAGON is a cooperative development effort with NATO AWACS wherein the aircraft cockpit is being updated and obsolete avionics are replaced to satisfy international airspace and air traffic control mandates. Implementation of DRAGON ensures the AWACS fleet has unrestricted worldwide access to global airspace and provides numerous safety of flight updates. In FY15, previous development activity culminated in the first flight of a DRAGON modified aircraft. The initial US aircraft was inducted for the DRAGON modification and will complete software lab and ground testing procedures. AWACS also awarded contracts to begin initial development activities on the Electronic Protection (EP) and Internet Protocol Enabled Communications (IPEC) programs. The EP program will design and develop radar processing improvements, which will provide the AWACS fleet with a defensive capability for use in environments of advanced electronic attack. IPEC will upgrade the internet protocol capability of the jet, thus establishing the high bandwidth connectivity required for secure chat and e-mail functionality. The IPEC modification, which was declared an urgent operational need in 2015, enables the warfighter to receive time sensitive data required for real-time mission coordination and implementation. The AWACS program is also continuing risk reduction efforts on multiple fronts with a focus on operations in contested environments and high bandwidth / Beyond Line of Sight (BLOS) communication requirements needed to be relevant on the battlefield of tomorrow.

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

AMRAAM is a radar-guided, air-to-air missile with capability in both the beyond visual-range and within visual-range arenas. The latest AMRAAM variant, the AIM-120D, delivers improved performance via Global Positioning System (GPS)-aided navigation, a two-way datalink capability for enhanced aircrew survivability and improved network compatibility, and incorporates new guidance software which improves kinematic performance and weapon effectiveness. The Air Force and Navy completed FOT&E of the AIM-120D Advanced Medium-Range Air-to-Air Missile (AMRAAM) in July 2014 and fielded the system in January 2015. Both services continue to develop AMRAAM improvements to counter existing and emerging air vehicle threats operating at high or low altitude, and having advanced Electronic Attack (EA) capabilities. AMRAAM Electronic Protection Improvement Program (EPIP) is a software upgrade to AIM-120C3-C7 family of legacy missiles. An Advanced EPIP software upgrade is planned to add additional capabilities. AIM-120D System Improvement Program (SIP)-1 operational test activities began in FY 2015 and are expected to be completed in FY 2016. SIP-1 is one of several follow-on programs designed to enhance AIM-120D performance. The development program also enables AMRAAM compatibility with advanced fighters, enhances AMRAAM capability and operational flexibility against current and projected threats, incorporates high payoff technology development, performs risk reduction activities, and investigates new variants and/or alternate missions which may use AMRAAM attributes. To keep the existing inventory as effective as possible, the Air Force and Navy also develop, test, and field improvements that are implemented via software upgrades reprogrammed into fielded AMRAAMs, and/or hardware upgrades inserted into production units.

## Joint Space Operations Center Mission Systems

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

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

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

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# **General Fund**

Fiscal Year 2015

Required Supplementary Information

**Department of Defense**  
**Department of the Air Force**  
**STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	Research, Development, Test & Evaluation	Procurement	Military Personnel
<b>BUDGETARY RESOURCES:</b>			
<b>Budgetary Resources:</b>			
Unobligated balance brought forward, Oct. 1	\$ 3,877,306	15,905,659	1,284,935
Unobligated balance brought forward, Oct. 1, as adjusted	3,877,306	15,905,659	1,284,935
Recoveries of prior year unpaid obligations	498,618	1,119,803	302,397
Other changes in unobligated balance (+ or -)	(338,652)	(743,425)	(219,529)
Unobligated balance from prior year budget authority, net	4,037,272	16,282,037	1,367,803
Appropriations (discretionary and mandatory)	23,586,348	38,421,674	34,373,157
Spending Authority from offsetting collections (discretionary and mandatory)	3,042,208	556,181	514,858
Total Budgetary Resources	<u>\$ 30,665,828</u>	<u>55,259,892</u>	<u>36,255,818</u>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred	25,547,376	35,255,109	34,816,096
Unobligated balance, end of year			
Apportioned	4,648,126	18,183,205	205,279
Exempt from Apportionment	0	0	0
Unapportioned	<u>470,326</u>	<u>1,821,579</u>	<u>1,234,443</u>
Total unobligated balance, end of year	<u>5,118,452</u>	<u>20,004,784</u>	<u>1,439,722</u>
Total Budgetary Resources	<u>\$ 30,665,828</u>	<u>55,259,893</u>	<u>36,255,818</u>
<b>Change in Obligated Balance:</b>			
<b>Unpaid obligations:</b>			
Unpaid obligations, brought forward, October 1 (gross)	13,310,405	34,376,632	2,654,771
Obligated incurred	25,547,376	35,255,109	34,816,096
Outlays (gross) (-)	(25,889,149)	(36,431,486)	(34,631,328)
Recoveries of prior year unpaid obligations (-)	<u>(498,618)</u>	<u>(1,119,803)</u>	<u>(302,397)</u>
Unpaid Obligations, end of year	12,470,015	32,080,451	2,537,143
<b>Uncollected payments:</b>			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(1,000,848)	(60,593)	(62,674)
Change in uncollected pymts, Fed sources (+ or -)	89,667	47,539	(44,845)
Uncollected pymts, Fed sources, end of year (-)	<u>(911,181)</u>	<u>(13,054)</u>	<u>(107,520)</u>
Obligated balance, start of year (+ or -)	<u>12,309,557</u>	<u>34,316,039</u>	<u>2,592,097</u>
Obligated balance, end of year (+ or -)	<u>\$ 11,558,834</u>	<u>32,067,397</u>	<u>2,429,623</u>
<b>Budget Authority and Outlays, Net:</b>			
Budget authority, gross (discretionary and mandatory)	26,628,556	38,977,855	34,888,015
Actual offering collections (discretionary and mandatory) (-)	(3,131,875)	(603,720)	(470,014)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	89,667	47,539	(44,845)
Budget Authority, net (discretionary and mandatory)	<u>\$ 23,586,348</u>	<u>38,421,674</u>	<u>34,373,156</u>
Outlays, gross (discretionary and mandatory)	25,889,149	36,431,486	34,631,328
Actual offsetting collections (discretionary and mandatory) (-)	(3,131,875)	(603,720)	(470,014)
Outlays, net (discretionary and mandatory)	22,757,274	35,827,766	34,161,314
Distributed offsetting receipts (-)	0	0	0
Agency Outlays, net (discretionary and mandatory)	<u>\$ 22,757,274</u>	<u>35,827,766</u>	<u>34,161,314</u>

Family Housing & Military Construction	Operations, Readiness & Support	2015 Combined	2014 Combined
1,668,937	3,010,611	25,747,448	25,628,189
1,668,937	3,010,611	25,747,448	25,628,189
18,759	3,245,638	5,185,215	4,553,828
(48,624)	(912,866)	(2,263,096)	(2,045,603)
1,639,072	5,343,383	28,669,567	28,136,414
1,087,497	55,496,002	152,964,678	151,731,862
30,843	5,725,880	9,869,970	8,642,592
<u>\$ 2,757,412</u>	<u>66,565,265</u>	<u>191,504,215</u>	<u>188,510,868</u>
1,264,572	63,102,957	159,986,110	162,763,418
1,047,251	403,343	24,487,204	19,830,205
0	10,680	10,680	12,862
<u>445,590</u>	<u>3,048,285</u>	<u>7,020,223</u>	<u>5,904,381</u>
<u>1,492,841</u>	<u>3,462,308</u>	<u>31,518,107</u>	<u>25,747,448</u>
<u>\$ 2,757,413</u>	<u>66,565,265</u>	<u>191,504,217</u>	<u>188,510,866</u>
1,491,608	27,155,124	78,988,540	76,881,017
1,264,572	63,102,957	159,986,110	162,763,418
(1,030,534)	(60,065,930)	(158,048,427)	(156,102,066)
<u>(18,759)</u>	<u>(3,245,638)</u>	<u>(5,185,215)</u>	<u>(4,553,828)</u>
1,706,886	26,946,514	75,741,009	78,988,540
0	(1,224,606)	(2,348,721)	(1,962,973)
0	66,131	158,492	(385,749)
<u>0</u>	<u>(1,158,476)</u>	<u>(2,190,231)</u>	<u>(2,348,721)</u>
<u>1,491,608</u>	<u>25,930,518</u>	<u>76,639,819</u>	<u>74,918,044</u>
<u>\$ 1,706,886</u>	<u>25,788,038</u>	<u>73,550,778</u>	<u>76,639,819</u>
1,118,340	61,221,882	162,834,648	160,374,454
(30,843)	(5,792,011)	(10,028,463)	(8,256,843)
0	66,131	158,492	(385,749)
<u>\$ 1,087,497</u>	<u>55,496,002</u>	<u>152,964,677</u>	<u>151,731,862</u>
1,030,534	60,065,930	158,048,427	156,102,065
(30,843)	(5,792,011)	(10,028,463)	(8,256,843)
999,691	54,273,919	148,019,964	147,845,222
0	(5,987)	(5,987)	(165,256)
<u>\$ 999,691</u>	<u>54,267,932</u>	<u>148,013,977</u>	<u>147,679,966</u>

## DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

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

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

<b>HERITAGE ASSETS</b>					
<b>For Fiscal Year Ended September 30, 2015</b>					
<b>Heritage Asset Categories</b>	<b>Measurement Quantity</b>	<b>As of 9/30/14</b>	<b>Additions</b>	<b>Deletions</b>	<b>As of 9/30/15</b>
Buildings and Structures	Each	6,106	53	42	6,117
Archaeological Sites	Sites	1,974	0	0	1,974
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,213	299	234	135,278
Museum Collection Items (Fine Art)	Each	15,254	56	52	15,258

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

## 1. Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reported 6,702 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2014. However, this number was found to be incorrect during the FY15 data query of ACES-RP. The actual number for FY14 is 6106. The number of Buildings and Structures considered Heritage Assets in FY15 is 6117, an increase of 11 total, but a result of 53 additions to the list and 42 deletions due to demolitions.

The FY14 error is probably due to over counting the multi-use facilities, in essence counting each instance of use as a separate facility.

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

## 2. Archaeological Sites

Prehistoric and historic archaeological sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reported 3,090 archeological sites were Heritage Assets as of Sep 2014. This number also was found to be incorrect during the Defense Environmental Program Annual Report to Congress data call Oct-Nov, 2014. The actual number reported by CONUS installations is 1974. The AF has not yet collected FY15 data on the number of archaeological Heritage Assets, and so herein reports the FY14 number, 1974. This cohort of archaeological Heritage Assets is a subset of over 21,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories.

There is one primary reason for the over count of FY14 archaeological Heritage Assets: Relatively poor data management at several installations resulting in years of inaccurate reporting culminating in the FY13 DEPARC data call. The AF Audit Agency FIAR, and the improved methods of DEPARC data collection at AFCEC, along with increased scrutiny of reported data at AFCEC, resulted in a much more accurate count during the FY14 DEPARC data call (DEPARC data call is done annually more than a month later than these RSI reports, so "official" FY data counts are not available for inclusion in that FY RSI). Next FY RSI, the AF will report the FY15 data reported in the FY15 DEPARC, which likely will be done Oct-Nov, 2016.

## Stewardship Land

<b>STEWARDSHIP LAND</b>					
<b>For Fiscal Year Ended September 30, 2015</b>					
<b>(Acres in Thousands)</b>					
<b>Facility Code</b>	<b>Facility Title</b>	<b>As of 9/30/14</b>	<b>Additions</b>	<b>Deletions</b>	<b>As of 9/30/15</b>
9110	Government Owned Land	1,565	0	0	1,565
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,268	0	1	6,267
9130	Licensed and Permitted Land	735	0	0	735
9140	Public Land	0	0	0	0
9210	Land Easement	161	0	1	160
9220	In-leased Land	104	0	1	103
9230	Foreign Land	296	0	1	295
<b>Grand Total</b>					<b>9,125</b>
<b>Total - All Lands</b>					
<b>Total - Stewardship Lands</b>					

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

The Air Force has 9,125,964 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

**REAL PROPERTY DEFERRED MAINTENANCE**

<b>Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2015 (\$ in Millions)</b>			
<b>Property Type</b>	<b>Plant Replacement Value</b>	<b>Required Work (Deferred Maintenance)</b>	<b>Percentage</b>
Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$231,334	\$18,536	7.9%
Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	\$11,621	\$39.2	0.3%
Category 3: Buildings, Structures, and Utilities (Heritage Assets)	\$33,188	\$4,083	12.3%

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

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

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

<b>Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2015 (\$ in Thousands)</b>			
<b>Major Categories</b>	<b>PB-45 Amounts</b>	<b>Adjustments</b>	<b>Total</b>
1. Aircraft	\$ 1,172,948	\$ (1,172,948)	\$ 0
2. Automotive Equipment	48	(48)	0
3. Combat Vehicles	22,311	(22,311)	0
4. Construction Equipment	0	0	0
5. Electronic and Communications Systems	445,527	(445,527)	0
6. Missiles	92,622	(92,622)	0
7. Ships	0	0	0
8. Ordnance Weapons and Munitions	3,084	(3,084)	0
9. General Purpose Equipment	35,410	(35,410)	0
10. All Other Items Not Identified to Above Categories	6,685	(6,685)	0
<b>Total</b>	<b>\$ 3,105,798</b>	<b>\$ (3,105,798)</b>	<b>\$ 0</b>

**NOTES:**

- (1) Amounts presented include Deferred Funding for the estimated portion of depot maintenance within Contract Logistics Support (CLS), along with Deferred Funding for Depot Purchased Equipment Maintenance (DPEM).
- (2) Amounts are broken out by Method of Accomplishment and sub-totaled by Maintenance Activity (Major Category).
- (3) The figures presented are projected deferred maintenance amounts for FY2015 based on the enacted position as reported in the FY2015 President's Budget for the FY2015 position. Adjustments column includes Overseas Contingency Operations (OCO) supplemental funding and requirement adjustments that did not generate or were otherwise reduced due to efficiencies realized or fact of life changes.

This position does not represent the final FY15 adjustments. Subject to change based on final funds reconciliation.

**Deferred Maintenance and Repairs (M&R) for Fiscal Year 2015**

Weapon System Sustainment (WSS) is very diverse and encompasses over 100 weapon systems throughout the world supporting 12 Service Core Functions. Those weapon systems consist of fly (fixed-wing and rotary wing) and non-fly systems. Policies to ensure fly systems are maintained to meet airworthiness standards and all weapon systems (fly and non-fly) are sustained to perform assigned mission by the most economical means. Most requirements within WSS are considered Capitalized General Plant, Property, and Equipment (PP&E).

**Defining and Implementing M & R Policies in Practice**

As permitted under Statements of Federal Financial Accounting Standards (SFFAS) 42, Deferred Maintenance and Repairs, amending SFFAS 6, 14, 29 and 32, several different Basis of Estimate methodologies determine maintenance and repair requirements. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. During the development of WSS maintenance and repair requirements, approved Force Structure changes are incorporated.

Maintenance and repair requirements change from the time of publishing in support of the Program Objective Memorandum (POM) to development of the execution plan for the upcoming execution year. This policy 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 then the deferral will be added as an Out-of-Cycle (OOC) requirement. Second, if there is no additional capacity in the following year the deferral will be added during the normal scheduled requirements development in support of the next POM, which leaves sufficient lead-time for development of capacity.

### **Ranking and Prioritizing M & R Activities**

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

### **Significant Changes from Prior Year and Related Events**

AF sustainment requirements often start the year with significant shortfalls as represented by the PB-45/61 column. Many of these shortfalls are mitigated in the adjustment column through receipt of Overseas Contingency Operations (OCO) funding and careful prioritization of the AF's most critical readiness needs. Deferred maintenance as described in the total column occurs when OCO funding and prioritization do not prevent a readiness impact in a future year.

The FY13 Budget Control Act caused significant issues. The AF resolved some of these issues through additional funds, funds realignment, and other execution year actions. However, \$322M of deferred maintenance carried out of FY13. For FY14, the AF experienced a two-plus week Government shut-down at the start of the year and five months of greatly reduced budget authority. This reduced budget authority caused the AF to have \$60M in deferrals for FY14.

FY15 was the first year, in the recent past, where the AF had sufficient and predictable WSS funding. Utilizing an enterprise resourcing and prioritization process the AF was able to eliminate deferrals for FY15.



# **General Fund**

## **Fiscal Year 2015**

### **Audit Opinion**



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

November 9, 2015

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2015 and  
FY 2014 Basic Financial Statements (Report No. DODIG-2016-016)

***Report on the Basic Financial Statements***

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Air Force General Fund consolidated balance sheet as of September 30, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

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

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

## ***Auditor's Responsibility***

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

## ***Basis for Disclaimer of Opinion***

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force General Fund FY 2015 and FY 2014 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Air Force General Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

## ***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force General Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

## ***Other Information in the Annual Financial Statements***

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited

basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013.

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

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

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

### ***Agency Comments and Our Evaluation***

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

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

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



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

## **Report on Internal Control Over Financial Reporting**

### ***Internal Control Compliance***

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

### ***Management Responsibilities***

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

### ***Auditor's Responsibilities***

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

### ***Previously Identified Material Weaknesses***

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

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

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

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

**Contractor-Managed/Possessed Property–Operating Materials and Supply.**

The Air Force did not have assurance over the existence and completeness of government-furnished property (Operating Materials and Supplies) in the possession of contractors. The contractor-managed property was not accounted for in an Air Force-accountable property system of record.

**General Property, Plant, and Equipment.** Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment data using acquisition cost, capitalized improvement costs, and depreciation expense. The Air Force acknowledged it cannot validate the accuracy of the Property, Plant, and Equipment line and needs to improve internal control over recording real property journal entries as well as reporting construction-in-progress and related expenses.

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

**Environmental Liabilities.** The Air Force could not support its environmental clean-up cost estimates as recorded in the Air Force Real Property Agency management information system. As a result, this system provides unsupported cost information for reporting in the Basic Financial Statements.

**Statement of Net Cost.** Statement of Federal Financial Accounting Concepts No. 2, “Entity and Display,” requires that that Statement of Net Cost present gross and net cost information for major organization and programs and data related to its outputs and outcomes. The Air Force acknowledged that it accumulates the amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs, as required. In addition, the Air Force did not accumulate cost information in accordance with U.S. GAAP. It presented the amounts for the General Fund based on budgetary obligations, disbursements, and collections, with adjustments made for only major items of known accruals and imputed expenses. Thus, the Statement of Net Cost may not report all actual costs or may report costs not actually incurred.

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



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

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

### ***Previously Identified Significant Deficiencies***

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

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

- **Accounts Receivable.** The Air Force did not properly reconcile and support the validity of the “Accounts Receivable” line item due to deficiencies related to intragovernmental trading partner eliminations and proper accrual accountability and support
- **Accounts Payable.** The Air Force did not ensure the accuracy of the amount of the “Accounts Payable” line item because there were deficiencies identified in the areas of intragovernmental trading partner eliminations, accruals, supporting documentation, and a lack of reconciliation of the Open Document Listing to ensure accounting data is properly recorded. These deficiencies result in an inability to properly reconcile and support the validity of Accounts Payable.
- **Reimbursable Programs.** Statement of Federal Financial Accounting Concepts No. 1, “Objectives of Federal Financial Reporting,” requires the Air Force to track the cost of performing work reimbursed by other Government entities or by non-Federal customers. Statement of Federal Financial Accounting Concepts No. 1 defines costs as a measure of resources (personnel, material, and equipment) used to accomplish the work. The Air Force has acknowledged that its reimbursable programs may not recover all billable costs incurred in the fulfillment of reimbursable orders. Specifically, the Air Force did not always identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were not properly billed to the customer.

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

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

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

### ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517, (2004), the Air Force and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Air Force General Fund reported no ADA violations.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, Antideficiency Act Report," November 2010, establishes time frames for identifying and reporting on ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. This includes the combined Air Force and Office of the Under Secretary of Defense Comptroller/Chief

Financial Officer, DoD processing time. Three investigations of potential ADA violations have been open for more than 15 months.

### ***Compliance With FFMIA Requirements***

FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 (Revised) requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA.

The Air Force is executing a plan to meet the September 30, 2017, deadline for financial statement audit readiness. The Air Force plan states that it is deploying large information technology systems, but those systems will not be fully deployed in time to meet the FY 2017 audit readiness deadline. The Air Force plan states that it is constantly rethinking and deploying complex strategies to improve financial operations and achieve audit readiness by September 30, 2017.

For FY 2015, the Air Force General Fund did not substantially comply with FFMIA. The Air Force acknowledged to us that the Air Force General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2015. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force General Fund complied with FFMIA and OMB implementation guidance.

### **Recommendations**

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

# Working Capital Fund Principal Statements

## Fiscal Year 2015

The FY 2014 Department of the Air Force Working Capital Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Working Capital Fund for the fiscal year ending September 30, 2015, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2014.

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

### **Consolidated Balance Sheet**

The Consolidated Balance Sheet presents as of September 30, 2015 and 2014 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

### **Consolidated Statement of Changes in Net Position**

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2015 and 2014.

### **Combined Statement of Budgetary Resources**

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2015 and 2014, the status of these resources at September 30, 2015 and 2014, and the outlay of budgetary resources for the years ended September 30, 2015 and 2014.

### **Consolidated Statement of Net Cost**

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2015 and 2014. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

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

**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>ASSETS (Note 2)</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 1,417,240	\$ 815,321
Accounts Receivable (Note 5)	781,679	758,623
Other Assets (Note 6)	319,715	258,260
Total Intragovernmental Assets	<u>\$ 2,518,634</u>	<u>\$ 1,832,204</u>
Accounts Receivable, Net (Note 5)	1,725	7,161
Inventory and Related Property, Net (Note 9)	23,437,813	24,110,219
General Property, Plant and Equipment, Net (Note 10)	1,593,817	1,561,139
Other Assets (Note 6)	177,548	203,789
<b>TOTAL ASSETS</b>	<u><b>\$ 27,729,537</b></u>	<u><b>\$ 27,714,512</b></u>
<b>STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>		
<b>LIABILITIES (Note 11)</b>		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 176,830	\$ 208,601
Other Liabilities (Note 15 & 16)	54,285	53,367
Total Intragovernmental Liabilities	<u>\$ 231,115</u>	<u>\$ 261,968</u>
Accounts Payable (Note 12)	\$ 538,004	\$ 304,751
Military Retirement and Other Federal Employment Benefits (Note 17)	188,872	217,403
Other Liabilities (Note 15 and Note 16)	424,244	313,607
<b>TOTAL LIABILITIES</b>	<u><b>\$ 1,382,235</b></u>	<u><b>\$ 1,097,729</b></u>
<b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations - Other Funds	0	6,801
Cumulative Results of Operations - Other Funds	26,347,302	26,609,982
<b>TOTAL NET POSITION</b>	<u><b>\$ 26,347,302</b></u>	<u><b>\$ 26,616,783</b></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$ 27,729,537</b></u>	<u><b>\$ 27,714,512</b></u>

**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>Beginning Balances</b>	\$ 26,609,982	\$ 27,105,175
<b>Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)</b>	26,609,982	27,105,175
<b>Budgetary Financing Sources:</b>		
Appropriations used	68,517	66,294
Nonexchange revenue	(74)	0
Transfers-in/out without reimbursement	(200,000)	(128,336)
<b>Other Financing Sources:</b>		
Transfers-in/out without reimbursement (+/-)	(57,909)	22,319
Imputed financing from costs absorbed by others	149,208	170,169
Other (+/-)	271,237	292,166
<b>Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)</b>	230,979	422,612
<b>Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)</b>	493,659	917,805
<b>Net Change</b>	(262,680)	(495,193)
<b>Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)</b>	26,347,302	26,609,982
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)</b>	\$ 6,801	\$ 11,364
<b>Beginning balances, as adjusted</b>	6,801	11,364
<b>Budgetary Financing Sources:</b>		
Appropriations transferred-in/out	61,717	61,731
Other adjustments (rescissions, etc) Appropriations used	(1)	0
Appropriations used	(68,517)	(66,294)
<b>Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)</b>	(6,801)	(4,563)
<b>Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)</b>	0	6,801
<b>Net Position</b>	26,347,302	26,616,783

**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Combined</u>	<u>2014 Combined</u>
<b>Budgetary Resources:</b>		
Unobligated balance brought forward, Oct 1	993,356	545,223
Unobligated balance brought forward, Oct 1, as adjusted,	993,356	545,223
Recoveries of prior year unpaid obligations	32,654	22,741
Other changes in unobligated balance (+ or -)	(232,654)	(151,077)
Unobligated balance from prior year budget authority, net	793,356	416,887
Appropriations (discretionary and mandatory)	61,717	61,731
Contract Authority (discretionary and mandatory)	9,236,405	8,812,597
Spending Authority from offsetting collections	6,661,199	4,688,168
Total Budgetary Resources	<u>16,752,677</u>	<u>13,979,383</u>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred	15,359,737	12,986,027
Unobligated balance, end of year		
Apportioned	1,392,940	993,356
Total unobligated balance, end of year Total	<u>1,392,940</u>	<u>993,356</u>
Budgetary Resources	<u>16,752,677</u>	<u>13,979,383</u>
<b>Change in Obligated Balance: Unpaid obligations:</b>		
Unpaid obligations, brought forward, Oct 1	6,605,017	6,512,461
Obligations incurred	15,359,737	12,986,027
Outlays (gross) (-)	(15,220,291)	(12,870,730)
Recoveries of prior year unpaid obligations (-)	(32,654)	(22,741)
Unpaid obligations, end of year	6,711,809	6,605,017
<b>Uncollected payments:</b>		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,148,694)	(2,950,400)
Change in uncollected pymts, Fed sources (+ or -)	91,641	(1,198,293)
Uncollected pymts, Fed sources, end of year (-)	(4,057,053)	(4,148,693)
Obligated balance, start of year (+ or -)	<u>2,456,323</u>	<u>3,562,061</u>
Obligated balance, end of year (+ or -)	<u>2,654,756</u>	<u>2,456,324</u>



**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Combined</u>	<u>2014 Combined</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	15,959,321	13,562,496
Actual offsetting collections (discretionary and mandatory) (-)	(15,960,493)	(13,022,329)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	91,641	(1,198,293)
Budget Authority, net (discretionary and mandatory)	<u>90,469</u>	<u>(658,126)</u>
Outlays, gross (discretionary and mandatory)	15,220,291	12,870,730
Actual offsetting collections (discretionary and mandatory) (-)	(15,960,493)	(13,022,329)
Outlays, net (discretionary and mandatory)	<u>(740,202)</u>	<u>(151,599)</u>
Agency Outlays, net (discretionary and mandatory)	<u><u>(740,202)</u></u>	<u><u>(151,599)</u></u>

**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>2015 Consolidated</u>	<u>2014 Consolidated</u>
<b>Program Costs</b>		
Gross Costs	\$ 11,182,940	\$ 11,120,388
Operations, Readiness & Support	11,182,940	11,120,388
	<hr/>	<hr/>
(Less: Earned Revenue)	(10,689,281)	(10,202,583)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<hr/> 493,659	<hr/> 917,805
Net Program Costs Including Assumption Changes	493,659	917,805
<b>Net Cost of Operations</b>	<hr/> \$ 493,659	<hr/> \$ 917,805

# **Working Capital Fund**

Fiscal Year 2015

## **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.

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all AFWCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, there will be instances when the AFWCF's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1.J. Cash and Foreign Currency**

Not applicable.

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

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

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

Not applicable.

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

The AFWCF values approximately 97% of its resale inventory using the moving average cost method and reports the remaining 3% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (PL 104-208). The AFWCF is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

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

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

The AFWCF recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by AFWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The AFWCF often relies on weapon systems and machinery no longer in production. As a result, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated costs incurred in the delivery of maintenance services.

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

Not applicable.

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

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

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

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

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

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

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

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

Not applicable.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable.

**1.W. Undistributed Disbursements and Collections**

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

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

**1.X. Fiduciary Activities**

Not applicable.

**1.Y. Military Retirement and Other Federal Employment Benefits**

Not applicable.

**1.Z. Significant Events**

Not applicable.

<b>Note 2.</b>	<b>Nonentity Assets</b>
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As of September 30 (Amounts in thousands)	2015	2014
<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 0	\$ 0
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	32	106
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 32	\$ 106
<b>3. Total Nonentity Assets</b>	\$ 32	\$ 106
<b>4. Total Entity Assets</b>	\$ 27,729,505	\$ 27,714,406
<b>5. Total Assets</b>	\$ 27,729,537	\$ 27,714,512

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

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

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

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

As of September 30 (Amounts in thousands)	2015	2014
<b>1. Fund Balances</b>		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	1,417,240	815,321
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	\$ 1,417,240	\$ 815,321
<b>2. Fund Balances Per Treasury Versus Agency</b>		
A. Fund Balance per Treasury	\$ 2,429,002	\$ 1,529,220
B. Fund Balance per AFWCF	1,417,240	815,321
<b>3. Reconciling Amount</b>	\$ 1,011,762	\$ 713,899

The reconciling amount represents \$1.0 billion for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

## Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2015		2014	
<b>1. Unobligated Balance</b>				
A. Available	\$	1,392,940	\$	993,356
B. Unavailable		0		0
<b>2. Obligated Balance not yet Disbursed</b>	\$	6,711,809	\$	6,605,017
<b>3. Nonbudgetary FBWT</b>	\$	0	\$	0
<b>4. NonFBWT Budgetary Accounts</b>	\$	(6,687,509)	\$	(6,783,052)
<b>5. Total</b>	\$	1,417,240	\$	815,321

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

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

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

Nonbudgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT. The AFWCF currently does not have a Nonbudgetary FBWT.

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

### Note 4. Investments and Related Interest

AFWCF has no Investments and Related Interest.

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

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

As of September 30	2014		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
<b>1. Intragovernmental Receivables</b>	\$ 758,623	N/A	\$ 758,623
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 9,640	\$ (2,479)	\$ 7,161
<b>3. Total Accounts Receivable</b>	<u>\$ 768,263</u>	<u>\$ (2,479)</u>	<u>\$ 765,784</u>

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

<b>Note 6.</b>	<b>Other Assets</b>
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As of September 30 (Amounts in thousands)	2015	2014
<b>1. Intragovernmental Other Assets</b>		
A. Advances and Prepayments	\$ 27	\$ 28
B. Other Assets	319,688	258,232
C. Total Intragovernmental Other Assets	\$ 319,715	\$ 258,260
<b>2. Nonfederal Other Assets</b>		
A. Outstanding Contract Financing Payments	\$ 171,574	\$ 183,692
B. Advances and Prepayments	5,449	20,014
C. Other Assets (With the Public)	525	83
D. Total Nonfederal Other Assets	\$ 177,548	\$ 203,789
<b>3. Total Other Assets</b>	\$ 497,263	\$ 462,049

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

Outstanding Contract Financing Payments includes \$158.1 million in contract financing payments and an additional \$13.4 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

The \$319.7 million in Intragovernmental Other Assets - Other Assets is comprised of Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

The \$525.2 thousand in Nonfederal Other Assets – Other Assets (With the Public) is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistical system, but have not yet updated the appropriate labor account in the accounting system.

<b>Note 7.</b>	<b>Cash and Other Monetary Assets</b>
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AFWCF has no Cash and Other Monetary Assets.

<b>Note 8.</b>	<b>Direct Loans and Loan Guarantees</b>
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AFWCF has no Direct Loans and Loan Guarantee Programs.

<b>Note 9.</b>	<b>Inventory and Related Property</b>
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As of September 30 (Amounts in thousands)	2015	2014
1. Inventory, Net	\$ 23,306,262	\$ 23,965,251
2. Operating Materials & Supplies, Net	131,551	144,968
3. Stockpile Materiel, Net	0	0
<b>4. Total</b>	<b>\$ 23,437,813</b>	<b>\$ 24,110,219</b>



## Inventory, Net

As of September 30	2015			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
(Amounts in thousands)				
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 12,932,915	\$ (65,548)	12,867,367	LAC,MAC
B. Held for Repair	13,830,129	(3,393,124)	10,437,005	LAC,MAC
C. Excess, Obsolete, and Unserviceable	750,556	(750,556)	0	NRV
D. Raw Materials	0	0	0	MAC,SP,LAC
E. Work in Process	1,890	0	1,890	AC
<b>F. Total</b>	<b>\$ 27,515,490</b>	<b>\$ (4,209,228)</b>	<b>23,306,262</b>	

As of September 30	2014			Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
(Amounts in thousands)				
<b>1. Inventory Categories</b>				
A. Available and Purchased for Resale	\$ 13,496,287	\$ (59,167)	13,437,120	LAC,MAC
B. Held for Repair	14,231,195	(3,708,525)	10,522,670	LAC,MAC
C. Excess, Obsolete, and Unserviceable	37,657	(37,657)	0	NRV
D. Raw Materials	0	0	0	MAC,SP,LAC
E. Work in Process	5,461	0	5,461	AC
<b>F. Total</b>	<b>\$ 27,770,600</b>	<b>\$ (3,805,349)</b>	<b>23,965,251</b>	

### Legend for Valuation Methods:

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

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

MAC = Moving Average Cost

### Restrictions

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

### General Composition of Inventory

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

## Definitions

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

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

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

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

## Operating Materials and Supplies, Net

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

(Amounts in thousands)

### 1. OM&S Categories

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

<b>D. Total</b>	<b>\$ 131,551</b>	<b>\$ 0</b>	<b>\$ 131,551</b>	
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As of September 30	2014			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

### 1. OM&S Categories

A. Held for Use	\$ 144,968	\$ 0	\$ 144,968	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV

<b>D. Total</b>	<b>\$ 144,968</b>	<b>\$ 0</b>	<b>\$ 144,968</b>	
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#### Legend for Valuation Methods:

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

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

MAC = Moving Average Cost

## General Composition of Operating Materials and Supplies

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

### Restrictions

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

### Definition

Held for Use includes consumable parts and supplies.

## Stockpile Materiel, Net

AFWCF has no Stockpile Materiel.

**Note 10. General Property, Plant & Equipment, Net**

As of September 30	2015				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
<b>1. Major Asset Classes</b>					
A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20 Or 40	1,381,855	\$ (801,266)	580,589
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	1,143,839	(1,097,180)	46,659
E.General Equipment	S/L	Various	3,320,104	(2,358,293)	961,811
F.Assets Under Capital Lease	S/L	Lease Term	0	0	0
G. Construction-in-Progress	N/A	N/A	4,758	N/A	4,758
H.Other			0	0	0
I. Total General PP&E			<u>\$ 5,850,556</u>	<u>\$ (4,256,739)</u>	<u>\$ 1,593,817</u>

As of September 30	2014				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
<b>1. Major Asset Classes</b>					
A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20 Or 40	1,327,159	\$ (779,276)	547,883
C.Leasehold Improvements	S/L	Lease Term	0	0	0
D.Software	S/L	2-5 Or 10	1,138,044	(1,090,072)	47,972
E.General Equipment	S/L	Various	3,201,904	(2,239,111)	962,793
F.Assets Under Capital Lease	S/L	Lease Term	0	0	0
G. Construction-in-Progress	N/A	N/A	2,491	N/A	2,491
H. Other			0	0	0
I. Total General PP&E			<u>\$ 5,669,598</u>	<u>\$ (4,108,459)</u>	<u>\$ 1,561,139</u>

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

## Assets Under Capital Lease

AFWCF has no Assets Under Capital Lease.

## Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2015	2014
(Amounts in thousands)		
<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	42,011	43,403
<b>D. Total Intragovernmental Liabilities</b>	<b>\$ 42,011</b>	<b>\$ 43,403</b>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$ 0	\$ 0
B. Military Retirement and Other Federal Employment Benefits	188,872	217,403
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
<b>E. Total Nonfederal Liabilities</b>	<b>\$ 188,872</b>	<b>\$ 217,403</b>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 230,883</b>	<b>\$ 260,806</b>
<b>4. Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 1,151,352</b>	<b>\$ 836,923</b>
<b>5. Total Liabilities</b>	<b>\$ 1,382,235</b>	<b>\$ 1,097,729</b>

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

The \$42.0 million in Intragovernmental Liabilities - Other Liabilities is comprised of the portion of the total Air Force Federal Employee's Compensation Act (FECA) liability allocated to the AFWCF.

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

<b>Note 12.</b>	<b>Accounts Payable</b>
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As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

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

As of September 30	2014		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$	208,601	\$	N/A	\$	208,601
2. Nonfederal Payables (to the Public)		304,751		0		304,751
<b>3. Total</b>	<b>\$</b>	<b>513,352</b>	<b>\$</b>	<b>0</b>	<b>\$</b>	<b>513,352</b>

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

<b>Note 13.</b>	<b>Debt</b>
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AFWCF has no Debt.

<b>Note 14.</b>	<b>Environmental Liabilities and Disposal Liabilities</b>
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AFWCF has no Environmental Liabilities or Disposal Liabilities.

**Note 15. Other Liabilities**

As of September 30

	2015		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	18,771	23,238	42,009
F. Custodial Liabilities	32	0	32
G. Employer Contribution and Payroll Taxes Payable	12,244	0	12,243
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	<u>\$ 31,047</u>	<u>\$ 23,238</u>	<u>\$ 54,284</u>
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 169,924	\$ 0	\$ 169,924
B. Advances from Others	122,477	0	122,477
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	315	0	315
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	13,426	13,426
L. Other Liabilities	118,102	0	118,102
M. Total Nonfederal Other Liabilities	<u>\$ 410,818</u>	<u>\$ 13,426</u>	<u>\$ 424,244</u>
<b>3. Total Other Liabilities</b>	<u>\$ 441,865</u>	<u>\$ 36,664</u>	<u>\$ 478,528</u>

As of September 30	2014		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	19,706	23,697	43,403
F. Custodial Liabilities	106	0	106
G. Employer Contribution and Payroll Taxes Payable	9,858	0	9,858
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	<u>\$ 29,670</u>	<u>\$ 23,697</u>	<u>\$ 53,367</u>
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 154,263	\$ 0	\$ 154,263
B. Advances from Others	88,192	0	88,192
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	440	0	440
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	17,380	17,380
L. Other Liabilities	53,332	0	53,332
M. Total Nonfederal Other Liabilities	<u>\$ 296,227</u>	<u>\$ 17,380</u>	<u>\$ 313,607</u>
<b>3. Total Other Liabilities</b>	<u><u>\$ 325,897</u></u>	<u><u>\$ 41,077</u></u>	<u><u>\$ 366,974</u></u>



The \$118.1 million balance in the Nonfederal Other Liabilities – Other Liabilities primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign governments provide funds to buy their respective share of inventory that is owned and managed by the Air Force under a Cooperative Logistics Supply Support Agreement (CLSSA).

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

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

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

Contingent liabilities include \$13.4 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The AFWCF is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the AFWCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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

## Capital Lease Liability

AFWCF has no Capital Leases.

## Note 16. Commitments and Contingencies

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

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

<b>Note 17.</b>	<b>Military Retirement and Other Federal Employment Benefits</b>
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As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
<b>1. Pension and Health Benefits</b>			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
<b>2. Other Benefits</b>			
A. FECA	\$ 188,872	\$ 0	\$ 188,872
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	\$ 188,872	\$ 0	\$ 188,872
<b>3. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 188,872	\$ 0	\$ 188,872

As of September 30	2014		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
<b>1. Pension and Health Benefits</b>			
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0
<b>2. Other Benefits</b>			
A. FECA	\$ 217,403	\$ 0	\$ 217,403
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	\$ 217,403	\$ 0	\$ 217,403
<b>3. Total Military Retirement and Other Federal Employment Benefits:</b>	\$ 217,403	\$ 0	\$ 217,403

Federal Employees Compensation Act (FECA)

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

2015  
 3.134% in Year 1  
 3.134% in Year 2  
 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2015 were also used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2015	N/A	N/A
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020+ and thereafter	1.65%	3.69%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2015 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2015 projection to the average pattern for the projections of the most recent three years.

<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue		
As of September 30	2015	2014

As of September 30	2015	2014
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(Amounts in thousands)

**Operations, Readiness & Support**

1. Gross Cost		
A. Intragovernmental Cost	\$ 1,411,206	\$ 1,666,162
B. Nonfederal Cost	9,771,734	9,454,227
C. Total Cost	\$ 11,182,940	\$ 11,120,389
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (10,362,545)	\$ (9,822,689)
B. Nonfederal Revenue	(326,736)	(379,894)
C. Total Revenue	\$ (10,689,281)	\$ (10,202,583)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 493,659	\$ 917,806

**Consolidated**

1. Gross Cost		
A. Intragovernmental Cost	\$ 1,411,206	\$ 1,666,162
B. Nonfederal Cost	9,771,734	9,454,227
C. Total Cost	\$ 11,182,940	\$ 11,120,389
2. Earned Revenue		
A. Intragovernmental Revenue	\$ (10,362,545)	\$ (9,822,689)
B. Nonfederal Revenue	(326,736)	(379,894)
C. Total Revenue	\$ (10,689,281)	\$ (10,202,583)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 0	\$ 0
4. Costs Not Assigned to Programs	\$ 0	\$ (1)
5. (Less: Earned Revenues) Not Attributed to Programs	\$ 0	\$ 0
Total Net Cost	\$ 493,659	\$ 917,805

A \$2.4 billion abnormal balance exists within USSGLA 7290. The abnormal balance is the result of an ongoing inventory process to record the transfer of condemned assets from the maintenance division of the AF WCF to the Defense Reutilization and Marketing Organization (DRMO).

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

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

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

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

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

<b>Note 19.</b>	<b>Disclosures Related to the Statement of Changes in Net Position</b>
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A \$74.2 thousand abnormal balance exists in nonexchange revenue. The abnormal balance is the result of the decrease in the accrual for interest, penalties, and administrative fees on outstanding debt from the public. Once the debt has been established, only year to date (YTD) changes are recorded in the account. Since the balance in the interest, penalties, and administrative fees due from the public decreased, so too did the corresponding revenue account, resulting in the abnormal balance.

A \$2.4 billion abnormal balance exists within USSGLA 7290. The abnormal balance is the result of an ongoing inventory process to record the transfer of condemned assets from the maintenance division of the AF WCF to the Defense Reutilization and Marketing Organization (DRMO).

The \$271.2 million in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations on the Statement of Budgetary Resources (SBR). The \$61.7 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources for further information.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of September 30 (Amounts in thousands)	2015	2014
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 5,546,940	\$ 5,815,315
2. Available Borrowing and Contract Authority at the End of the Period	0	0

A \$620 thousand abnormal balance exists in USSGLA 480100D, Direct Undelivered Orders-Unpaid. The abnormal balance is the result of a reconciliation adjustment made to align the War Readiness Material (WRM) unexpended appropriation with the Direct Undelivered Orders-Unpaid and Prepaid accounts.

When performing the reconciliation, the Direct Undelivered Orders-Prepaid account was not considered, and the reclassification between Direct Undelivered Orders-Unpaid and Reimbursable Undelivered Orders-Unpaid was \$620.9 thousand greater than what was required, thus causing an abnormal balance. The abnormal balance in USSGLA 480100D is offset by an equal amount in USSGLA 480200D.

The AFWCF reported \$61.7 million in direct obligations and \$15.3 billion in reimbursable obligations in category B.

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

The Appropriations on the Statement of Budgetary Resources (SBR) does not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP). The \$61.7 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 19, Disclosures Related to the Statement of Changes in Net Position for additional details.

**Note 21. Reconciliation of Net Cost of Operations to Budget**

As of September 30

2015

2014

(Amounts in thousands)

**Resources Used to Finance Activities:**

**Budgetary Resources Obligated:**

1. Obligations incurred	\$	15,359,737	\$	12,986,027
2. Less: Spending authority from offsetting collections and recoveries (-)		(15,901,508)		(14,243,363)
3. Obligations net of offsetting collections and recoveries	\$	(541,771)	\$	(1,257,336)
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	\$	(541,771)	\$	(1,257,336)

**Other Resources:**

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(57,909)		22,319
8. Imputed financing from costs absorbed by others		149,208		170,169
9. Other (+/-)		271,237		292,166
10. Net other resources used to finance activities	\$	362,536	\$	484,654
<b>11. Total resources used to finance activities</b>	\$	(179,235)	\$	(772,682)

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

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	\$	268,375	\$	(179,392)
12b. Unfilled Customer Orders		(130,400)		855,523
13. Resources that fund expenses recognized in prior Periods (-)		(29,924)		(4,177)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(5,384,877)		(4,847,307)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0		0
16b. Other (+/-)		(213,328)		(314,485)
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	\$	(5,490,154)	\$	(4,489,838)
<b>18. Total resources used to finance the Net Cost of Operations</b>	\$	(5,669,389)	\$	(5,262,520)

As of September 30

2015

2014

(Amounts in thousands)

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

## Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	0	\$	0
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		(1,087)		(240)
23. Other (+/-)		0		0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	(1,087)	\$	(240)

## Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	164,476	\$	169,767
26. Revaluation of assets or liabilities (+/-)		(961,992)		2,142,626
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		13,515,761		8,461,606
27c. Operating Material and Supplies Used		20,759		0
27d. Other		(6,574,869)		(4,593,434)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	6,164,135	\$	6,180,565

<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$	6,163,048	\$	6,180,325
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<b>30. Net Cost of Operations</b>	\$	6,163,048	\$	6,180,325
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Due to the AFWCF's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

A \$6.1 million adjustment was made to the Revaluation of Assets or Liabilities in order to align the note schedule with the amount reported on the Statement of Net Cost.

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

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

Resources Used to Finance Activities, Other, and Resources Used to Finance Items not Part of the Net Cost of Operations, Other, is primarily comprised of other gains and losses totaling \$272.0 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Components not Requiring or Generating Resources, Other, is primarily comprised of \$6.3 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

<b>Note 22.</b>	<b>Disclosures Related to Incidental Custodial Collections</b>
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The AFWCF collected \$23.6 thousand of incidental custodial revenues generated primarily from nonentity interest, penalties and administrative fees collected for out-of-service debts. These funds are not available for use by AFWCF. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

<b>Note 23.</b>	<b>Funds From Dedicated Collections</b>
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AFWCF has no Funds from Dedicated Collections.

<b>Note 24.</b>	<b>Fiduciary Activities</b>
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AFWCF has no Fiduciary Activities.

<b>Note 25.</b>	<b>Other Disclosures</b>
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AFWCF has no Other Disclosures.

<b>Note 26.</b>	<b>Restatements</b>
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AFWCF has no Restatements.

# **Working Capital Fund**

Fiscal Year 2015

Required Supplementary Information

**Department of Defense**  
**Air Force Working Capital Fund**  
**STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES**  
**For the periods ended September 30, 2015 and 2014**  
**(\$ in Thousands)**

	<u>Operations, Readiness &amp; Support</u>	<u>2015 Combined</u>	<u>2014 Combined</u>
<b>Budgetary Resources:</b>			
Unobligated balance brought for, October 1	993,356	993,356	545,223
Unobligated balance brought forward, October 1, as adjusted	993,356	993,356	545,223
Recoveries of prior year unpaid obligations	32,654	32,654	22,741
Other changes in unobligated balance (+ or -)	(232,654)	(232,654)	(151,077)
Unobligated balance from prior year budget authority, net	793,356	793,356	416,887
Appropriations (discretionary and mandatory)	61,717	61,717	61,731
Contract Authority (discretionary and mandatory)	9,236,405	9,236,405	8,812,597
Spending Authority from offsetting collections (discretionary and mandatory)	6,661,199	6,661,199	4,688,169
Total Budgetary Resources	<u>\$ 16,752,677</u>	<u>16,752,677</u>	<u>13,979,384</u>
<b>Status of Budgetary Resources:</b>			
Obligations Incurred	15,359,737	15,359,737	12,986,028
Unobligated balance, end of year, Apportioned	<u>1,392,940</u>	<u>1,392,940</u>	<u>993,356</u>
Total unobligated balance, end of year	<u>1,392,940</u>	<u>1,392,940</u>	<u>993,356</u>
Total Budgetary Resources	<u>\$ 16,752,677</u>	<u>16,752,677</u>	<u>13,979,384</u>
<b>Change in Obligated Balance:</b>			
<b>Unpaid obligations:</b>			
Unpaid obligations, brought forward, October 1 (gross)	6,605,018	6,605,018	6,512,462
Obligations incurred	15,359,737	15,359,737	12,986,028
Outlays (gross) (-)	(15,220,291)	(15,220,291)	(12,870,730)
Recoveries of prior year unpaid obligations (-)	<u>(32,654)</u>	<u>(32,654)</u>	<u>(22,741)</u>
Unpaid obligations, end of year	<u>\$ 6,711,809</u>	<u>6,711,809</u>	<u>6,605,018</u>
<b>Uncollected Payments:</b>			
Uncollected pymts, Fed sources, brought forward, Oct. 1 (-)	(4,148,694)	(4,148,694)	(2,950,401)
Change in uncollected pymts, Fed sources (+ or -)	91,639	91,639	(1,198,293)
Uncollected pymts, Fed sources, end of year (-)	<u>(4,057,054)</u>	<u>(4,057,054)</u>	<u>(4,148,694)</u>
Obligated balance, start of year (+ or -)	<u>2,456,324</u>	<u>2,456,324</u>	<u>3,562,061</u>
3200 Obligated balance, end of year (+ or -)	<u>\$ 2,654,755</u>	<u>2,654,755</u>	<u>2,456,324</u>
<b>Budget Authority and Outlays, Net:</b>			
Budget authority, gross (discretionary and mandatory)	15,959,321	15,959,321	13,562,497
Actual offsetting collections (discretionary and mandatory) (-)	(15,960,493)	(15,960,493)	(13,022,329)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	91,639	91,639	(1,198,293)
Budget Authority, net (discretionary and mandatory)	<u>\$ 90,467</u>	<u>90,467</u>	<u>(658,125)</u>
Outlays, gross (discretionary and mandatory)	15,220,291	15,220,291	12,870,730
Actual offsetting collections (discretionary and mandatory) (-)	(15,960,493)	(15,960,493)	(13,022,329)
Outlays, net (discretionary and mandatory)	<u>(740,202)</u>	<u>(740,202)</u>	<u>(151,299)</u>
Agency Outlays, net (discretionary and mandatory)	<u>\$ (740,202)</u>	<u>(740,202)</u>	<u>(151,599)</u>

# **Working Capital Fund**

Fiscal Year 2015

Audit Opinion



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

November 9, 2015

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

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund  
FY 2015 and FY 2014 Basic Financial Statements  
(Report No. DODIG-2016-017)

***Report on the Basic Financial Statements***

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Air Force Working Capital Fund consolidated balance sheet as of September 30, 2015, and 2014, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

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

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

### ***Auditor's Responsibility***

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

### ***Basis for Disclaimer of Opinion***

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements would not substantially conform to U.S. GAAP and that the Air Force Working Capital Fund financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2015. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin No. 15-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

### ***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force Working Capital Fund FY 2015 and FY 2014 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

### ***Other Information in the Annual Financial Statements***

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the

audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 4, 2015, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013.

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

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

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

### ***Agency Comments and Our Evaluation***

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



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

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



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

## **Report on Internal Control Over Financial Reporting**

### ***Internal Control Compliance***

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

### ***Management Responsibilities***

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

### ***Auditor's Responsibilities***

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

### ***Previously Identified Material Weaknesses***

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

**Financial Management Systems.** Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purpose authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure proper

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

**Inventory.** The Air Force supply management systems did not provide sufficient audit trails to confirm and value the in-transit inventory included as part of inventory held for sale on the Consolidated Balance Sheet.

**Operating Materials and Supplies.** The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to record an expense at the time a user consumes Operating Materials and Supplies. The Air Force did not record the cost of goods sold and work-in-process in accordance with this statement. Additionally, uncertainties existed regarding the existence and completeness of the quantities used to derive the balances reported in the financial statements for operating materials and supplies inventory.

**General Property, Plant, and Equipment.** Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force could not verify these values in accordance with this statement. In addition, the "General Property, Plant, and Equipment" line item on the Balance Sheet did not include all Government-furnished equipment, with values exceeding the capitalization threshold, in the hands of contractors.

**Subsidiary Ledgers and Special Journals.** The Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts. The Air Force and the Defense Finance and Accounting Service personnel did not perform reconciliations and system validations to verify the accuracy of accounts receivable from Foreign Military Sales, progress payments to contractors, and accounts payable from the Consolidated Sustainment Activity Group Supply Division.

**Intragovernmental Eliminations.** The Air Force could not accurately identify all intragovernmental transactions by customer. Seller entities within DoD provided summary balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the Air Force adjusted its buyer-side records to recognize unrecorded costs and accounts payable.

**Accounting Entries.** The Air Force acknowledged that it continued to make material adjustments for financial reporting that were not supported by detailed transactions because of its inability to properly identify intragovernmental trading-partner transactions and the deficiencies described above.

**Spending Authority From Offsetting Collections Earned and Collected.** The Air Force did not always reconcile “Spending Authority, Earned and Collected” data as reported on the Statement of Budgetary Resources with transactional details. The Air Force is unable to sufficiently reconcile cash collections to supporting transactional details for wholesale and retail supply. The inability to properly reconcile cash collections to transactional details within the Integrated Logistics System–Supply (ILS-S) and the Financial Inventory Accounting and Billing System (FIABS) presents a material weakness that does not allow for assertion until resolved.

### ***Previously Identified Significant Deficiencies***

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

- **Accounts Receivable.** The Air Force did not have assurance on the Accounts Receivable financial statement line item due to deficiencies for intragovernmental trading partner eliminations and proper accrual accountability and support, as well as deficiencies for AFWCF foreign military sales (FMS), transactions between the Security Assistance Management Information System (SAMIS), and Financial Inventory Accounting and Billing System (FIABS).

- **Accounts Payable.** The Air Force did not have assurance on the Accounts Payable financial statement due to deficiencies in the areas of intragovernmental trading partner eliminations, accruals, supporting documentation, and a lack of an open document listing reconciliations to ensure accounting data was properly recorded. These deficiencies resulted in an inability to properly reconcile and support the validity of Accounts Payable.

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

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

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

## ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. § 1517, (2004), the Air Force and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Air Force Working Capital Fund reported no ADA violations.

## ***Compliance With FFMIA Requirements***

FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 (Revised) requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA.

The Air Force Working Capital Fund is not subject to the examination of the Schedule of Budgetary Activity deadline. The Air Force Working Capital Fund should continue to work towards asserting full financial statement audit readiness by the Department-wide FY 2017 deadline.

For FY 2015, the Air Force Working Capital Fund did not substantially comply with FFMIA. The Air Force acknowledged to us that Air Force Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2015. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force Working Capital Fund complied with FFMIA and OMB implementation guidance.

## **Recommendations**

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

**For more information or to contact us:**

**Assistance Secretary of the Air Force for  
Financial Management and Comptroller**

**SAF/FMFAS(Financial Reporting)**

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**Joint Base Andrews, Maryland 20762**

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