

A photograph of the USS Intrepid's masts at dusk. The masts are tall, white, and curved, reaching towards the sky. In the upper center, three fighter jets are flying in a formation. The sky is a deep blue. In the foreground, a large crowd of people is gathered, many with their arms raised. There are American flags and other flags visible. A large screen is visible on the right side of the crowd. The overall scene is a public event or ceremony.

# United States Air Force Agency Financial Report FY 2017

## 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.*

# Table of Contents

## Management Discussion and Analysis

|                                   |    |
|-----------------------------------|----|
| Air Force Heritage .....          | 1  |
| Air Force in Action—FY 2017 ..... | 4  |
| Air Force Structure .....         | 6  |
| Air Force Resources .....         | 12 |
| Management Assertions .....       | 13 |
| Analysis of Financial Statements  |    |
| General Fund .....                | 17 |
| Working Capital Fund .....        | 21 |

## Financial Statements

|  |     |
|--|-----|
| General Fund   |     |
| Principal Statements .....                           | 25  |
| Notes to the Principal Statements .....              | 31  |
| Required Supplementary Stewardship Information ..... | 87  |
| Required Supplementary Information .....             | 104 |
| Audit Opinion.....                                   | 113 |
| Working Capital Fund                                 |     |
| Principal Statements .....                           | 126 |
| Notes to the Principal Statements .....              | 132 |
| Required Supplementary Information .....             | 165 |
| Audit Opinion.....                                   | 167 |

# Management Discussion and Analysis

## Air Force Heritage

### 75<sup>th</sup> Anniversary of the Doolittle Raid



Members of Lt. Col Jimmy Doolittle's crew. Front left: Doolittle (pilot), Lt. Richard Cole (co-pilot). Back left: Lt. Henry Potter (navigator), SSgt. Fred Braemer (bombardier), SSgt Paul Leonard (flight engineer/gunner)

In 2017 the Air Force is observing the 75<sup>th</sup> anniversary of the Doolittle raid. The April 18, 1942 raid was an important event in the development of American air power as it was the first combat use of strategic bombardment by the U.S. Army Air Force in World War II. Led by Lt. Col. James “Jimmy” Doolittle, the Raiders consisted of 16 B-25 Mitchell bombers and 80 Airmen, all volunteers from the 17<sup>th</sup> Bombardment Group (Medium). They bombed military targets in five Japanese cities, causing only minimal physical damage, but huge psychological damage to Japanese military leaders and civilians. The raid's success raised morale for American citizens who had only heard bad news concerning the war. The Japanese had destroyed a large portion of the Pacific fleet at Pearl Harbor and captured both

Guam and Wake Island.

The Doolittle Raiders trained for their mission at Eglin Field in Florida using a chalk outline of an aircraft carrier to practice carrier deck take-offs. They trained for three weeks in March 1942 to master low level bombing and over-water navigation. On April 1, 1942, the 16 modified bombers were loaded on the *USS Hornet* at Alameda Naval Air Station, California. The *Hornet* departed San Francisco Bay the next day and soon thereafter rendezvoused with the aircraft carrier *USS Enterprise* and her escorts north of Hawaii. The combined force of two aircraft carriers, four cruisers, eight destroyers and two oilers was under the command of Vice Admiral William F. Halsey Jr. The *Enterprise's* air group of naval fighters and attack planes provided protection as the force was underway. *Hornet's* aircraft were stowed in the hanger deck so the B-25s could use the flight deck.

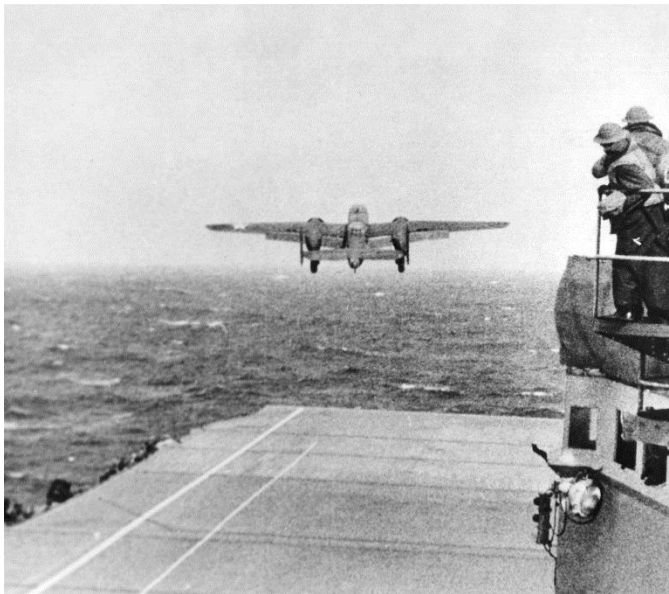
As the task force sailed towards Japan, an enemy picket boat spotted the force approximately 650 miles from the Japanese homeland. The original plan called for the Raiders to take off 480 miles from their targets. Admiral Halsey and Lt. Col. Doolittle decided to launch the force immediately on a mission that would stretch the fuel capacity of the B-25. All 16 crews took off safely despite having never flown from an actual aircraft carrier. They reached their targets in Japan six hours later where they hit military and industrial targets in Tokyo, Yokohama, Yokosuka, Nagoya, Kobe, and Osaka.

After striking their targets, the Raiders continued southwest to China where homing beacons were to guide Doolittle's force to friendly airfields; however, Halsey apparently never signaled the airfields to alert them of the Raiders launch. A radio signal from the *Hornet* might have betrayed the fleet's location to the Japanese. One of the B-25s, which was very low on fuel,

flew towards the Soviet Union where the crew was interned for the majority of the remaining war. The other 15 crews either crash landed in China or parachuted over China.

Of the 80 crewmembers who participated in the raid, three were killed in action (one during a bailout attempt and two drowned off the coast of China after their plane crash landed). Eight Raiders were taken as Prisoners of War by the Japanese. Of these, three were executed, one died in captivity and four survived the war. The majority of Raiders who were able to escape China and return to the United States continued to fly missions during the rest of the war in several different theatres. Twelve more Raiders died in World War II, ten of them killed in action. Lt. Col. Doolittle became a national hero and was promoted two ranks to Brigadier General while still in China. He went on to command the 12<sup>th</sup> Air Force in North Africa, the 15<sup>th</sup> Air Force in the Mediterranean, and the 8<sup>th</sup> Air Force in England.

After the war, the Raiders held annual reunions most years from the late 1940s to 2013. At each reunion, the surviving Raiders toasted their comrades who had died during the previous year using silver goblets, each inscribed with a Raider's name. The goblets of those Raiders who have died are inverted in their display case. On April 17-18, 2017 the Air Force commemorated the 75<sup>th</sup> anniversary of the Raiders mission at the National Museum of the Air Force at Wright Patterson AFB, Ohio. The sole survivor, Lt. Col. Richard E. Cole (Doolittle's co-pilot) raised a toast to his friend and comrade Staff Sgt. David Thatcher who passed away June 22, 2016. At the conclusion of the memorial service, two B-1 bombers flew over Memorial Park and ascended into an unrestricted climb as a tribute to the Doolittle Raiders, who pioneered the concept of global strike, the idea that no target on the face of the earth is safe from American airpower.



A B-25 Mitchell takes off from the USS Hornet

## Air Force Core Missions

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

**Air and Space, and Cyberspace Superiority:** The last time an enemy aircraft killed a service member in the American ground forces was April 15, 1953. Without air superiority, our military would have to radically change the way it fights, at the price of lives lost.

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



In FY 2017 the Air Force's inventory of 5,517 aircraft flew 1.165 million flight hours. An aircraft takes off every two minutes somewhere around the globe. In April 2017, the Air Force established a new three-star deputy chief of staff for space operations as the Air Force headquarters chief space advocate. The Air Force Space Command has developed a Space Warfighting Construct, which is an integrated approach to evolve the space architecture to be more flexible, survivable, and resilient. It will guide the development of future space systems and change the way the Air Force employs current systems.

Cyberspace is critical to joint and Air Force operations. The use of cyberspace ensures the Air Force has a warfighting advantage in the 21<sup>st</sup> century. Through cyberspace operations, the Air Force finds and uses the best tools, skills, and capabilities to ensure the ability to fly, fight, and win in cyberspace. Cyberspace professionals such as cyber operators, intelligence professionals, acquisitions personnel, and aviators ensure the Air Force and joint force ability to conduct operations in, through and from cyberspace. More than 4,600 men and women conduct or support 24-hour cyberspace operations for active units. In addition, more than 10,000 Air National Guard and Air Force Reserve personnel directly support the cyberspace mission.

**Intelligence, Surveillance, and Reconnaissance (ISR):** The Air Force has embraced globally integrated ISR as one of its feature calling cards. ISR is the foundation upon which every joint, interagency, and coalition operation achieves success. Our ISR Airmen identify and assess adversary targets and tactics with greater accuracy and speed than ever seen in the history of warfare.

In 2016 MQ-1 and MQ-8 aircrew flew over 350,000 hours. ISR Airmen provide over 6,000 intelligence products every day which are used by the warfighter to eliminate targets; 70 percent of Special Forces operations are triggered by ISR products.

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

Airlift provides the capability to deploy U.S. armed forces anywhere in the world within hours and help sustain them in a conflict. Air Mobility Command also supports presidential and senior leader airlift. Air Refuelers are the backbone of global reach, increasing coalition and U.S. aircraft's range mid-air. Aeromedical evacuation ensures the wounded warriors get the care they deserve and have sustained the survival rate of 97 percent. In addition to enabling the force to respond to an enemy attack and sustain operations, rapid global mobility brings humanitarian supplies and assistance to those in need who may live in austere locations.

**Global Strike:** Global strike means that the nation can project military power more rapidly, with greater flexibility, and with a lighter footprint than other military options. The Air Force's nuclear and conventional precision-strike forces can credibly threaten and effectively conduct global strike by holding any target on the planet at risk and, if necessary, disable or destroy it. Whether from forward bases or enabled by in-flight refueling, global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other Air Force aircraft. This capability, unmatched by any other nation or service, will grow in importance as America rebalances its force structure and faces potential adversaries who are modernizing their militaries. The Air Force will focus future efforts on updating global strike

assets to ensure that American forces are prepared to act when, where, and how they are needed.

We lead the fight against extremist organizations, conducting over 70 sorties a day, expending over 40,000 munitions a year, and participating in 70 percent of the more than 26,000 coalition



F-15E Strike Eagles fire flares over Iraq

airstrikes in Iraq and Syria since the campaign began. America's alert intercontinental ballistic missiles (ICBMs) play a critical role in maintaining global stability and ensuring the nation's safety and security. As the nation's "silent sentinels," ICBMs and the Airmen who operate them, have remained on continuous, around-the-clock alert since 1959.

**Command and Control:** The Air Force's other four interdependent core missions are enabled by robust, adaptable, and survivable

command and control systems. Command and Control Airmen conduct 2,300 command and control sorties every month and track 23,000 objects in space every day. The Air Force provides access to reliable communications and information networks so that the joint team can operate globally. The delivery of airpower is intimately dependent upon operating effectively in cyberspace, which can increase the efficiency and effectiveness of air and space operations and help integrate capabilities across all domains. Adversaries are also making advances by linking their own combat capabilities electronically, creating military challenges that our forces must be prepared to address. The Air Force will field advanced command and control systems that are reliable, resilient, and interoperable, while recruiting and training innovative Airmen to operate them.

## Air Force in Action--FY 2017

### F-35 Fielding

The Air Force continues to deploy our newest fifth generation fighter, the F-35 Lightning II. In April 2017, six aircraft and several hundred Airmen were deployed to Royal Air Force Base Lakenheath, England. The deployment demonstrates our readiness to conduct operations with America's European partners. The aircraft were deployed from the Fighter Wings based at Hill Air Force Base, Utah. The introduction of the F-35 to Europe brings state-of-the-art sensors, interoperability and a vast array of advanced air-to-air and air-to-surface munitions that will help maintain the fundamental territorial and air sovereignty rights of all nations. The F-35 provides unprecedented precision-attack capability against current and emerging threats with unmatched lethality, survivability and interoperability. The aircraft was deployed to maximize training opportunities, affirm enduring commitments to NATO allies, and deter any actions that destabilize regional security.



An F-35A Lightning II takes off from Hill AFB, Utah

## Humanitarian Missions

During FY 2017 the total force provided humanitarian relief to regions of the country devastated by hurricanes. Airmen from the 71<sup>st</sup> Rescue Squadron and 23<sup>rd</sup> Logistics Readiness Squadron conducted refueling operations in Beaumont, Texas after Hurricane Harvey dumped several inches of rain. Due to flooding, the airport was unable to receive fuel shipments to fuel aircraft conducting relief operations in and

around the city. Airmen used the fueling capacity of the HC-130J, the only dedicated fixed-wing personnel recovery platform in the inventory, to offload 23,000 gallons of fuel. The HC-130J has the capacity to carry over 9,000 gallons of fuel which it can offload to other aircraft or airport storage tanks.

Three C-17s from Joint Base Charleston, SC and Dover AFB, Delaware flew more than 300 physicians, nurses and other medical professionals to Orlando in anticipation of Hurricane Irma's landfall. The mission came at the request of the Department of Health and Human Services, which coordinated the federal medical and public health medical support. A total force team of active duty, Air National Guard and Air Force Reserve Airmen worked with federal, state and local mission partners to aid the community's recovery.

In September, Special Tactics Airmen from the Kentucky Air National Guard were sent to the Caribbean where they opened airfields for humanitarian aid deliveries in the wake of Hurricane Maria, the third major hurricane to hit the region this year. The Airmen cleared airfields of debris, opened runways and taxiways and established air traffic control so the military airlift could begin. These humanitarian efforts provided Airmen the opportunity to use their skills and equipment to help those in need. Few other organizations have the skills and infrastructure needed to provide such a rapid and effective respond for those in need.

## Acquisition Priorities

The F-35 Lightning II, KC-46 Pegasus, and the B-21 Raider are the Air Force's three most important acquisition priorities. The KC-46 tanker, which will replace the KC-135 fleet, has a refueling boom which offloads 1,200 gallons per minute to Air Force planes. Two underwing pods contain hoses to refuel Navy, Marine Corps and allied planes. The KC-46 has the capacity to carry nearly 32,000 gallons of fuel. The jet can operate in chemical and biological attack environments and is designed to survive the pulse of a nuclear blast. The Pegasus can also be configured to be a cargo plane with room for 65,000 pounds of cargo, 114 passengers, or 54 medical evacuation patients.

The B-21 Raider is the Air Force's 5<sup>th</sup> generation precision attack platform which will give our Air Force a networked sensor shooter capability enabling the U.S. to hold targets at risk anywhere in the world in a way that our adversaries have never seen. The Air Force plans to field as many as 80 to 100 new bombers by the mid-2020s. The B-21 will be built upon an open systems architecture, an engineering technique which allows the platform to quickly and efficiently integrate new technologies. The KC-46 will likely be engineered to fly manned as well as unmanned missions. The F-35, the KC-46 and the B-21 represent major efforts to modernize weapon systems in a cost effective manner.



## Nuclear Deterrent Modernization

The joint force puts the U.S. nuclear deterrent at the top of its list for modernization and recapitalization. Each component of the nuclear deterrent—the weapons themselves, the delivery platforms, the indication-and-warning systems to support the decision process, and the command-and-control networks is scheduled for upgrade. The Air Force Global Strike Command established the Air Force Nuclear Command, Control, and Communications Center (NC3) to streamline the management of 62 different systems and creates a single NC3 point of contact. NC3 also functions as the National Command and Control System, the world-wide system used by the President, Secretary of Defense and the Joint Chiefs.

In August, the Air Force announced the award of two technology maturation and risk reduction contracts for the Ground Based Strategic Deterrent (GBSD) intercontinental ballistic missile weapon system program. GBSD is the weapon system replacement for the LGM-30 Minuteman III missile. The Minuteman III first became operational in the early 1970s. While some components and subsystems have been upgraded, most of the fundamental infrastructure in use today is the original equipment designed 50 years ago. The new weapon system will meet the combatant commander's current requirements and have the adaptability to implement new technology through 2075.

The Air Force has also awarded contracts to design and develop the new Long Range Standoff Weapon (LRSW). The LRSW will replace the aging AGM-86B Air Launched Cruise Missile which was first fielded in the early 1980s with a 10-year design life. The LRSO will be a reliable, long-ranging weapon system which will allow the bomber force, including the B-21, to hold high value targets at risk within area-denied environments.

## 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.

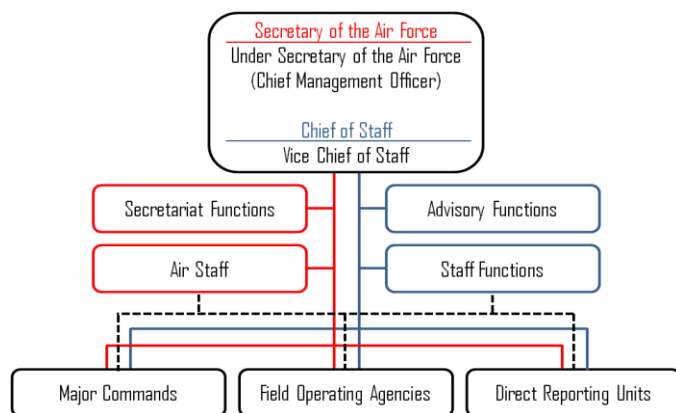


Figure 1

commanded by a general officer or a colonel. A wing may have several squadrons in more than

### 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 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

one dependent group. Wings typically contain an operations group, a maintenance group, a mission support group and a medical group.

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

### **Air Combat Command (ACC)**

**Mission:** ACC 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.



F-22 Raptors fly over Colorado

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.

### **Air Education and Training Command (AETC)**

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

**Responsibilities:** As the Air Force core function lead for education and training, AETC ensures all Airmen learn the skills necessary to excel in their profession in any environment. The command provides Airmen a foundation of professionalism, a deep understanding of Integrity, Service, and Excellence, and the ability to apply these values every day. They produce men and women who embody professional competence, have the desire and tools to take care of their fellow Airmen, and possess the character to overcome any obstacle. AETC's role makes it the First Command to touch the life of every Airman.

### **Air Force Global Strike Command (AFGSC)**

**Mission:** Airmen providing strategic deterrence, global strike and combat support...anytime, anywhere!



An unarmed Minuteman missile is launched during a test at Vandenberg AFB, CA

**Responsibilities:** AFGSC is responsible for the nation's three intercontinental ballistic missile wings, the Air Force's entire bomber force, to include B-52, B-1 and B-2 wings, the B-21 program, and operational and maintenance support to organizations within the nuclear enterprise.

### **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.

### **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 6 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 gathering, precision attack, special operations, rapid global mobility and personnel recovery.

### **Air Force Space Command (AFSPC)**

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



An Atlas V rocket launches from Cape Canaveral Air Force Station, FL

**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. The command 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.

### **Air Mobility Command (AMC)**

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



Paratroopers jump from a C-130 Hercules over Japan

**Responsibilities:** AMC Airmen, which include 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.

### **Air National Guard (ANG)**

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





An Air National Guard aircrew fights a forest fire in a C-130

**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.

### Pacific Air Forces (PACAF)

**Mission:** To deliver rapid and precise air, space and cyberspace capabilities to protect and defend the United States, its territories and our allies and partners; provide integrated air and missile warning and defense; promote interoperability throughout the Pacific area of responsibility; maintain strategic access and freedom of movement across all domains; and posture to respond across the full spectrum of military contingencies in order to maintain regional security.

**Responsibilities:** PACAF's area of responsibility is home to 60 percent of the world's population in 36 nations spread across 53 percent of the Earth's surface and 16 time zones, with more than 1,000 languages spoken. 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.



A B-1B Lancer takes off from Andersen AFB, Guam

### 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-AFACRICA executes the Air Force, USEUCOM and US AFRICOM missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

**Responsibilities:** As the air component for both U.S. European Command, and U.S. Africa Command, USAFE directs air operations in a theater spanning three continents, covering more than 19 million square miles, containing 104 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.

### **Air Force Special Operations Command (AFSOC)**

**Mission:** Provide our nation's specialized airpower, capable across the spectrum of conflict ... Any Place, Any Time, Anywhere.

**Responsibilities:** AFSOC provides Air Force special operations forces for worldwide deployment and assignment to regional unified commands. The command's personnel 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 special operation elements.

The command's core missions include battlefield air operations, agile combat support, aviation foreign internal defense, information operations/military support operations, precision strike, specialized air mobility; command and control; and intelligence, surveillance and reconnaissance. AFSOCs unique capabilities include airborne radio and television broadcast for psychological operations, as well as aviation foreign internal defense instructors to provide other governments military expertise for their internal development. The command's special tactics squadrons combine combat controllers, tactical air control party members, special operations weathermen and para-rescuemen with other service special operators to form versatile joint special operations teams.



U.S. and Qatari Special Forces jump over Qatar

### **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 mission.

### **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 ROTC cadets.

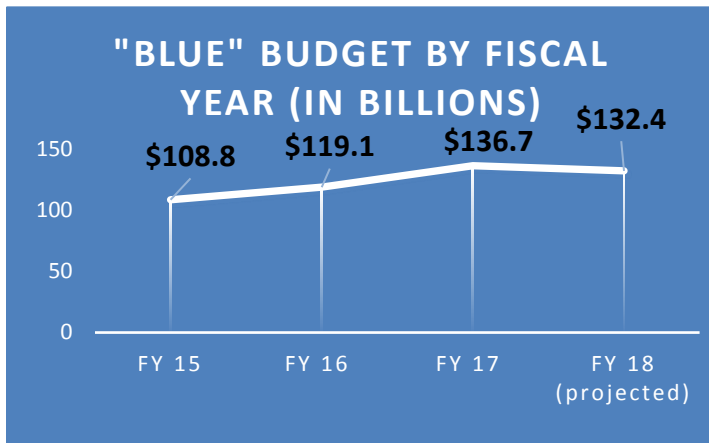
### **Field Operating Agency (FOA)**

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

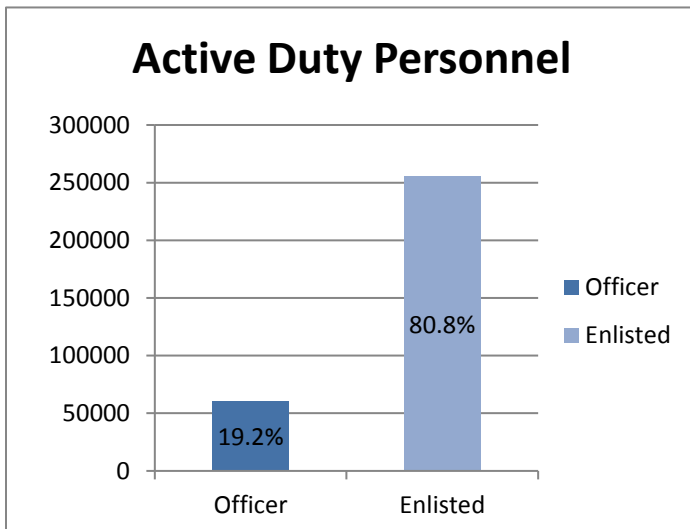
beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit Agency, the Air Force Civil Engineer Center, the Air Force Financial Services Center, the Air Force Services Agency, and the Air Force Weather Agency.

## Air Force Resources

**Budget:** The Air Force “Blue” budget are the funds directly controlled by Air Force management. The enacted FY 2017 blue budget totaled \$136.7 billion including:



- \$12.9 billion for Overseas Contingent Operations
- \$29.3 billion for Military Personnel
- \$2.5 billion for Military Construction
- \$23.9 billion for Procurement
- \$20.2 billion for Research, Development, Testing and Evaluation
- \$47.9 billion for Operations and Maintenance



**Personnel:** The Air Force consists of 315,725 active duty, 69,200 reserve, 106,700 guard and 140,727 civilian personnel. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These Airmen make possible the successful accomplishment of Air Force missions. The Air Force has 12,669 pilots, 3,301 navigators and 1,367 air battle managers in the grade of lieutenant colonel and below. The Air Force has 24,205 non-rated 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 79 major bases in the continental United States and another 14 major bases outside the continental United States.

**Aircraft:** The Air Force has 5,517 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

We implement our internal control program at all levels and endeavor to improve the efficient and effective use of resources. Effective internal controls increase accountability and transparency.

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

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

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

At the June 2017 Senior Assessment Team meeting, senior management voted that the Journal Voucher material weakness for both the General Fund and Working Capital Fund was resolved. The Working Capital Fund Deficiencies in Spending Authority from Offsetting Collections was also voted as resolved. Three new General Fund material weaknesses were created: Air Force Accounting Policies and Procedures and Multi-Service Contracts. These two weaknesses resulted from the FY 2016 Schedule of Budgetary Activity audit. The valuation of Real Property was also voted as a material weakness.

The Air Force General Fund is reporting the following 23 material weaknesses for FY 2017 (12 Financial Reporting, 1 Financial Systems, and 10 operational):

### Financial Reporting

- Financial Reporting Deficiencies
- Oversight and Monitoring of Internal Controls
- Reconciliation of Net Cost of Operations to Budget
- Elimination of Intragovernmental Transactions/Balances
- Air Force Accounting Policies and Procedures
- Multi-Service Contracts
- Presentation of the Statement of Net Cost
- Environmental Liability Clean-Up Costs
- Accountability of Government-Furnished Equipment
- Valuation of OM&S
- Accountability of Contractor Possessed/Managed OM&S
- Real Property Valuation

### Financial Systems

- Integrated Financial System



## Operational

- Contractor Access Controls
- Foreign Government Employment
- Energy Meter Management
- Defense Travel System
- Information Protection
- Air Force Review Boards Agency Case Backlogs
- Classified Information System Protection
- Information Technology Asset Management
- Overseas Housing Allowance
- Defense Contract Management Agency Contract

The Air Force Working Capital Fund is reporting the following three material weaknesses (two financial reporting and one Financial Systems):

### Financial Systems

- Integrated Financial System

### Financial Reporting

- Elimination of Intragovernmental Transactions/Balances
- In-Transit Inventory Tracking

## Fraud Reduction Report

The Air Force has multiple Financial Management fraud prevention and fraud detection measures in place and functioning. These include:

- Quality Assurance Program
- Management Internal Control Toolset
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Fraud prevention and detection is the highest priority in the Air Force Quality Assurance (QA) Program. There is a Quality Assurance Manager (QAM) at each Air Force installation who is responsible for administering the QA Program. The QAM is the focal point for fraud prevention and awareness. The QA Program will be enhanced to integrate and improve ongoing anti-fraud evaluations, anti-fraud controls, ethics training/communication, and compliance program. The QA Program also serves as a centralized repository for testing, training, documented communication, automated process tools, deficiency tracking, metrics, and reporting. Fraud vulnerability is addressed within the QA Program control monitoring activities. The Financial Services Officer (FSO) at each base, with assistance from the QAM at each base, is responsible for conducting Pay Record Accessibility audits in the areas of military pay, civilian pay, and travel pay.

The Air Force Office of Inspector General administers the Management Internal Control Toolset (MICT). The field operating units perform operational risk assessments for each assessable unit by self-reporting all control testing activities that have been completed within the last year. This includes the results of unit inspections, safety inspections, and other operations based control reviews.

Compliance risk assessments are performed throughout the Air Force. At the base level, compliance and operational risk assessments are performed through the self-reporting function in which the squadron/wing/MAJCOM can report the activities undertaken to

support compliance. At the Air Force-wide level, compliance risk assessments are performed on the previous year Self-Identified Deficiencies (SIDs), as some SIDs may be related to gaps in compliance that were previously identified. Both the risk assessment and control testing activities are recorded in the Managers' Internal Control Program (MICP) Module of FMSuite.

In FY 2017, the Air Force made significant progress toward the implementation of an effective OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* program. A Planning Memorandum that outlined the nature, timing, and extent of testing to be performed in FY 2017 was published.

The Air Force developed test plans to complete a formal review of control design by inquiry, observation, examination, and re-performance to document key controls, as well as primary and compensating controls. Business process controls were documented via cycle memos, process flows, and risk control matrices, which will be updated on a quarterly basis to provide Air Force management with a snapshot of whether the enterprise is compliant with current laws, regulations, policy, and procedures and whether proper supporting documentation exists to support financial management transactions. Controls which are functioning properly without material deficiencies will be tested for effectiveness. All controls including Complementary User Entity Controls (CUECs), as they are documented, will be monitored and incorporated into MICT.

Periodic evaluations are performed at least annually and include Test of Design (ToD) and Test of Effectiveness (ToE) on internal controls across most of the Air Force's assessable units (AUs). This includes anti-fraud related service provider Complementary User Entity Controls (CUECS), as stated on the Statement on Standards for Attestation Engagements Nos. 16 and 18. High risk assessable units for fraud, waste, abuse, and mismanagement include, but are not limited to Civilian Pay, Military Pay, Mechanization of Contract Administrative Services (MOCAS), Vendor Pay, Travel, and Mission Critical Assets (MCA).

Risk assessments are conducted, documented, and updated annually as part of the Air Force's OMB Circular A-123 assessment phases. The test plans for each assessable unit include a risk assessment analysis where results are consolidated on a Risk Control Matrix (RCM).

The Air Force has controls, policies, and procedures in place to ensure compliance with laws and regulations that may have a material effect on the financial statements. The implementation and effectiveness of these controls are tested at the Air Force-wide level, where each AU team is responsible for documenting the business processes and sub-processes of the field, including the policies and procedures that the field is using that guide their daily activities. This information is captured in the 'Laws, Policies, and Regulations' section within the Cycle Memo for the business process.

In the event that the AU team identifies that there is a lack of policy governing a specific sub-process or the field is not adhering to existing guidance, the AU team documents a control gap within the appropriate section of the cycle memo. The control gap is addressed with a Self-Identified Deficiency that discusses the root cause of the control gap. After this the AU team creates a Corrective Action Plan (CAP) to begin remediating the control gap. All CAPs are tracked by the Air Force on a monthly basis.

The Air Force A-123 governance structure identifies the Senior Management Control Council (SMCC), also acting as the Risk Management Council (RMC), with overall responsibility to:

- Define objectives clearly to build a risk strategy, enable the identification of risks, establish a risk profile, and define risk tolerances
- Identify, analyze, and respond to risks related to achieving the defined objectives
- Consider the potential for fraud when identifying, analyzing, and responding to risks
- Identify, analyze, and respond to significant changes that could impact the internal control system

In FY 2018 additional AUs will undergo testing for internal control operational effectiveness. Training will continue in the form of AU Lead Bootcamp training and MAJCOM site visits to promote internal control awareness and A-123 governing body responsibilities. Sound internal controls and effective risk management will give our financial statement auditors confidence that the information presented on our financial statements is complete and accurate.

### Full Financial Statement Audit

The Chief Financial Officers (CFO) Act of 1990 required all CFO Act agencies to prepare annual financial statements. The Government Management Reform Act of 1994 required all CFO Act agencies to prepare and submit audited financial statements to the Office of Management and Budget. In August 2017, the Air Force provided notification that our financial statements are audit ready. This notification of audit readiness is based on overall progress towards the critical capabilities defined by the Office of the Under Secretary of Defense (Comptroller), but is not a representation that the Air Force expects an unmodified audit opinion in FY 2018. The Air Force has the following capabilities (processes and systems) in place to allow an auditor to scope and perform an audit of full financial statements that results in actionable feedback:

- Universe of Transactions: Accounting transactions for material financial statement line items can be provided
- Fund Balance with Treasury: Process to reconcile fund balance with Treasury can be provided
- Journal Vouchers: List of material journal vouchers and support can be provided
- Existence, Completeness, and Rights and Obligations and Valuation of Assets: Asset populations are accessible, alternative valuation methods are applied to certain asset categories and can be provided
- Environmental and Disposal Liabilities for Real Property and General Equipment: Estimated Liabilities have been identified and valued

We are prepared to present our processes, systems and documentation, but anticipates multiple reportable audit findings from the outset. We have supporting documentation, but auditors may find this supporting documentation to be insufficient or inadequate. The Air Force will initially measure itself not by the opinion received, but by the number of findings closed year over year, the accuracy and the timeliness of remediation, improved execution of funds, and improved property accountability and utilization in support of the Warfighter and taxpayers' interest.

Additional dependencies and ongoing remediation efforts exist such as:

- Information Technology Systems and Universe of Transactions (UoT): The current Air Force IT environment consists of numerous non-integrated financial and logistics systems that were not designed to support financial statement auditability. Significant systems modernization efforts are underway to remediate these conditions. In the interim, controls are being strengthened to protect the integrity, security, and completeness of financial data. Additionally, corrective actions are underway to comprehensively establish the UoT capability for beginning balances across the full financial statements, particularly for General Property Plant and Equipment line items and the Air Force Working Capital Fund.
- Reliance on service providers: The Air Force relies on third party service providers for significant portions of its operations. This assertion is partially based on reliance on a combination of monitoring controls at the agency and assurance provided by the service provider. In particular, continuous collaboration with the Defense Finance and Accounting Service (DFAS) has been critical to Air Force success.

We have contracted with an independent public accountant (IPA) to work under the direction of the Department of Defense Inspector General. We look forward to working with the IPA to improve internal controls and our financial reporting process.

### Defense Enterprise Accounting and Management System (DEAMS)

The Air Force is deploying the Defense Enterprise Accounting and Management System (DEAMS) as part of our effort for Federal Financial Management Improvement Act 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 FY 2017, DEAMS deployed to an additional 600 users at 11 Air National Guard organizations located either on an active duty Air Force Base, or as a Geographically Separated Unit, bringing the total number of DEAMS users across 136 installations to approximately 12,800. The end user count also includes revisits to four active duty locations to deploy additional capability. Robust strategic communications have been delivered through the fiscal year, including town halls, user forums, newsletters, cut-over checklists, job aids, user manuals, and on-site support. DEAMS completed a successful year-end closeout and deployment to installations across the Pacific Air Forces will begin on 1 October 2017, which will add an additional 1,000 users.

## Analysis of Financial Statements

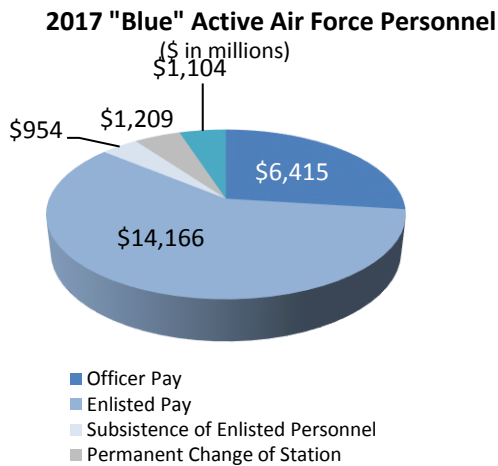
### Air Force General Fund

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

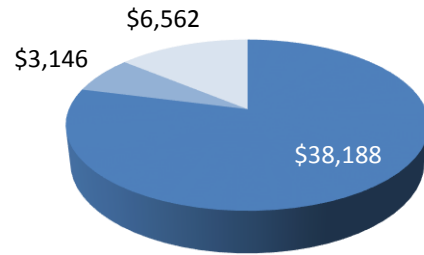


## Military Personnel

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 moves and supports a total force (active, reserve and guard) of 491,625.



**FY 2017 "Blue" O&M Expenditures**  
 (\$ in millions)



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

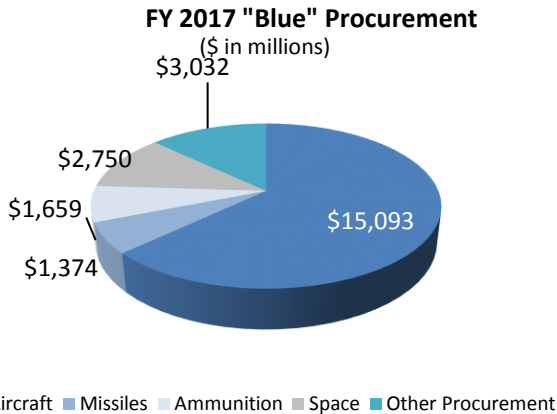
| Air Force "Blue" Total Force O&M (\$ in millions) | FY 2017 Expenditure |
|---|---------------------|
| Flying Operations                                 | \$18,262            |
| Civilian Pay                                      | \$11,494            |
| Installation Support and FSRM                     | \$7,206             |
| Space/Other Combat Forces                         | \$6,667             |
| Logistics Ops and Air Force-Wide Support          | \$2,217             |
| Training and Recruiting                           | \$1,126             |
| Mobility Forces                                   | \$924               |
| <b>Air Force O&amp;M "Blue" Total</b>             | <b>\$47,895</b>     |

## Operations & Maintenance (O&M)

Operations and Maintenance 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 2017 appropriation supported 83 major installations, including operations at two space lift ranges and 1.165 million flying hours.

## Procurement

The Procurement 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.



| "Blue" Aircraft Procurement<br>(\$ in millions) | FY 2017<br>Expenditure |
|---|------------------------|
| Combat Aircraft                                 | \$5,082                |
| Modification of In-Service Aircraft             | \$3,028                |
| Airlift Aircraft                                | \$3,760                |
| Aircraft Support Equipment and Facilities       | \$1,842                |
| Aircraft Spares and Repair Parts                | \$930                  |
| Other Aircraft                                  | \$451                  |
| <b>"Blue" Procurement Total</b>                 | <b>\$15,093</b>        |

### Military Construction

Ready and resilient installations are a critical component of Air Force operations. The Military Construction appropriation funds large scale facility construction projects supporting Total Force Airmen. The enacted FY 2017 military construction expenditures were \$2.1 billion. Approximately 89 percent of which was spent on active Air Force projects. Air National Guard expenditures were 8 percent and 3 percent of expenditures were spent on Air Force Reserve projects. The Air Force continues to prioritize Military Construction investments to ensure critical infrastructure requirements meet mission needs and operational timelines.

### 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<br>(\$ in millions) | FY 2017<br>Expenditure |
|--|------------------------|
| Science and Technology                   | \$2,678                |
| B-21 Raider                              | \$1,338                |
| Acquisition Civilian Pay                 | \$1,018                |
| Test & Evaluation                        | \$917                  |
| F-22 Upgrades                            | \$376                  |
| Technology Transition                    | \$349                  |
| Presidential Aircraft Recapitalization   | \$322                  |
| Combat Rescue Helicopter                 | \$273                  |
| JSTARS Recap                             | \$128                  |
| Long Range Standoff Weapon               | \$96                   |

### 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<br>(\$ in millions) | FY 2017<br>Expenditure |
|---|------------------------|
| MFH Operating and Maintenance               | \$275                  |
| MFH-Construction Improvements               | \$57                   |
| MFH-Construction Planning and Design        | \$4                    |
| <b>Total MFH Expenditures</b>               | <b>\$336</b>           |

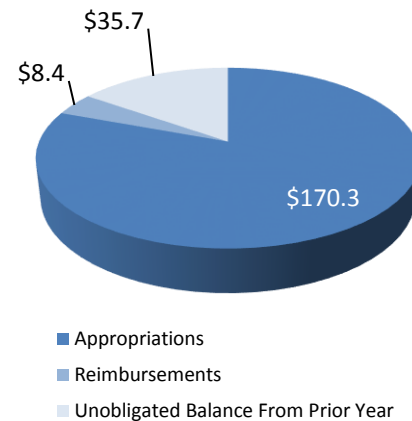
### Base Realignment and Closure (BRAC)

The law authorizes Base Realignment and Closure accounts to fund one-time costs that are a result of BRAC-directed actions. In FY 2017 the Air Force expended \$56 million to fund environmental restoration and property management. The program focuses on protecting human health and the environment through execution of projects that result in transferring acreage and achieving goals for environmental compliance remediation. In addition to achieving program goals and objectives, these projects must provide beneficial reuse of property and meet legally enforceable requirements.

### Results of Operations

The Combined Statement of Budgetary Resources presents total budgetary resources of \$214.4 billion that were available to the General Fund during FY 2017. Total budgetary resources for FY 2016 were \$206.1 billion. Total obligations incurred in FY 2017 were \$181.0 billion compared to \$172.8 billion for FY 2016.

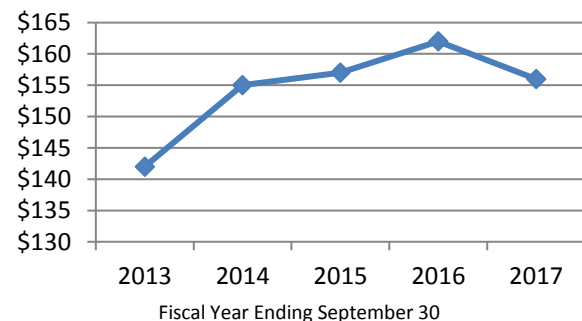
**General Fund Sources of Funds, FY 2017**  
(\$ in billions)



### Statement of Net Cost

The Combined Statement of Net Cost presents net cost of operations of \$156.2 billion during FY 2017 compared to \$162.4 billion for FY 2016. Net Cost of Operations represents gross costs incurred by the General Fund less earned revenue.

**General Fund Net Cost of Operations**  
(\$ in Billions)



### Financial Position

The General Fund continued to report a positive net position on the Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2017, net position totaled \$322.0 billion. As of September 30, 2016 net position totaled \$274.6 billion.

Total assets were \$351.0 billion as of September 30, 2017, compared to \$300.6 billion as of September 30, 2016. Total liabilities were \$29.0 billion as of September 30, 2017, compared to \$26.0 billion as of September 2016.

## 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 depot-level reparable and Air Force-managed consumable spares and maintenance services.

The **CSAG Maintenance Division** repairs weapon 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 26,000 personnel supporting three industrial locations:

- Ogden Air Logistics Complex
- Oklahoma City Air Logistics Complex
- Warner Robins Air Logistics Complex

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 1.5 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 supplies for 75 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

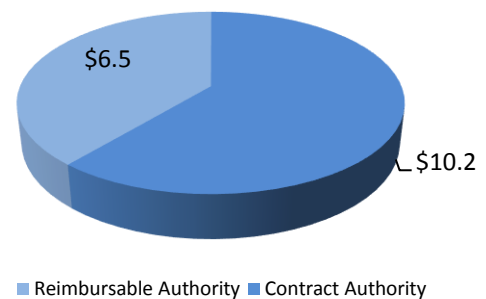
AFWCF provides support to a variety of customers: Air Force Major Commands (including the Air National Guard & Air Force Reserves), the Army, the Navy, other WCFs, other government agencies and foreign countries.

## Results of Operation

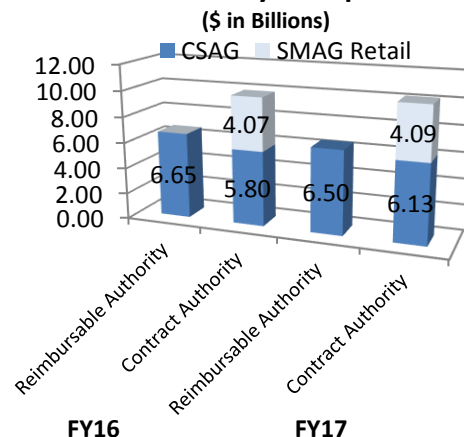
### Available Resources:

The combined Statement of Budgetary Resources presents total budgetary resources of \$18.2 billion that were available to AFWCF during FY 2017 and the status of those resources at fiscal year-end. Total budgetary resources consist of Reimbursable and Contract Authority and, a direct appropriation totaling \$64.0 million in support of Medical-Dental War Reserve Materials not included in pie chart. For comparison, total budgetary resources for fiscal year-end 2016 were \$17.5 billion. The pie chart below is the graphic representation of the ratio between the Customer Orders Accepted and the Contract Authority Used in FY 2017.

**AFWCF Sources of Funds, FY 2017**  
(\$ in Billions)



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





The net difference between the FY 2017 total budgetary resources and the total obligations incurred during FY 2017 is the Available Budgetary Resources of \$1.3 billion. This balance will carry forward and become the opening balance for AFWCF FY2018 operations. For comparison, the

### Cash Management

The Air Force manages working capital fund cash at the Department level. This cash is comprised of both Air Force and the U.S. Transportation Command cash balances and is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements, 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.

In determining required cash levels, Air Force calculates average disbursements and the expected range of cash volatility, adjusted to accommodate seasonality, known changes in the business environment, and the inherent risk associated with estimation error, and unplanned events outside management's control. The current methodology for calculating cash requirements consists of four elemental components; rate, range, risk mitigation, and reserves.

The Air Force targets to maintain cash within operating ranges to ensure balances

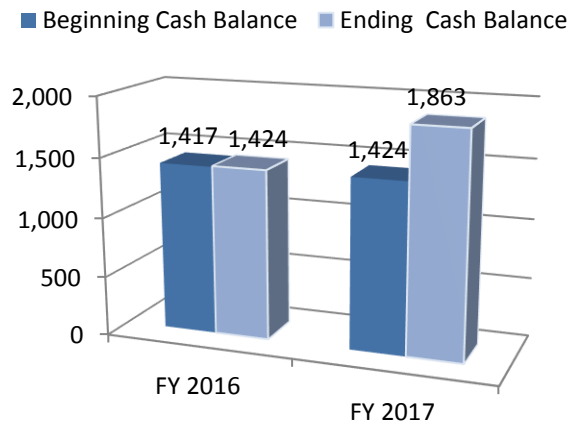
FY 2016 Available Budgetary Resources for AFWCF were \$1.4 billion.

The combined FY 2017 year end Statement of Budgetary Resources presents the total obligations incurred during FY 2017 of \$16.7 billion, compared to \$16.1 billion during FY 2016.

are sufficient for disbursements in support of the operating and capital programs, as required by the Department of Defense Financial Management Regulation.

The AFWCF FY 2017 lower target range was \$1.26 billion and the upper range cash goal was \$1.87 billion. The AFWCF yearend cash balance, \$1.86 billion is close to the upper range cash goal but does not exceed it. The chart below depicts the comparative cash position.

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



# **Fiscal Year 2017**

## **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 2017

The FY 2017 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, 2017, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2016.

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

#### **Consolidated Balance Sheet**

The Consolidated Balance Sheet, as of September 30, 2017 and 2016, represents 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, 2017 and 2016.

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

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2017 and 2016, the status of these resources at September 30, 2017 and 2016, and the outlay of budgetary resources for the years ended September 30, 2017 and 2016.

#### **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, 2017 and 2016.

#### **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, 2017 and 2016. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

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

**Department of the Air Force**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2017 and 2016**  
 (\$ in Thousands)

|  | <u>2017 Consolidated</u> | <u>2016 Consolidated</u> |
|--|--------------------------|--------------------------|
| <b>ASSETS (Note 2)</b>                               |                          |                          |
| Intragovernmental:                                   |                          |                          |
| Fund Balance with Treasury (Note 3)                  | \$ 124,996,744           | \$ 115,189,737           |
| Investments (Note 4)                                 | 355                      | 899                      |
| Accounts Receivable (Note 5)                         | 587,392                  | 471,995                  |
| Other Assets (Note 6)                                | 158,111                  | 141,535                  |
| <b>Total Intragovernmental Assets</b>                | <u>\$ 125,742,602</u>    | <u>\$ 115,804,166</u>    |
| Cash and Other Monetary Assets (Note 7)              | \$ 57,825                | \$ 60,184                |
| Accounts Receivable, Net (Note 5)                    | 226,403                  | 210,085                  |
| Inventory and Related Property, Net (Note 9)         | 55,240,648               | 42,076,994               |
| General Property, Plant and Equipment, Net (Note 10) | 148,060,921              | 122,321,227              |
| Other Assets (Note 6)                                | 21,674,149               | 20,081,622               |
| <b>TOTAL ASSETS</b>                                  | <u>\$ 351,002,548</u>    | <u>\$ 300,554,278</u>    |
| <b>LIABILITIES (Note 11)</b>                         |                          |                          |
| Intragovernmental:                                   |                          |                          |
| Accounts Payable (Note 12)                           | \$ 2,200,761             | \$ 2,021,975             |
| Other Liabilities (Note 15 & 16)                     | 951,351                  | 891,936                  |
| <b>Total Intragovernmental Liabilities</b>           | <u>\$ 3,152,112</u>      | <u>\$ 2,913,911</u>      |
| Accounts Payable (Note 12)                           | \$ 3,121,854             | \$ 3,681,195             |
| Military Retirement and Other Federal                | 1,027,796                | 1,043,523                |
| Employment Benefits (Note 17)                        |                          |                          |
| Environmental and Disposal Liabilities (Note 14)     | 11,167,963               | 10,405,478               |
| Other Liabilities (Note 15 and Note 16)              | 10,561,519               | 7,937,077                |
| <b>TOTAL LIABILITIES</b>                             | <u>\$ 29,031,244</u>     | <u>\$ 25,981,184</u>     |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>       |                          |                          |
| <b>NET POSITION</b>                                  |                          |                          |
| Unexpended Appropriations - Other Funds              | 135,697,230              | 124,168,615              |
| Cumulative Results of Operations - Dedicated         | 24,380                   | 25,948                   |
| Collections (Note 23)                                |                          |                          |
| Cumulative Results of Operations - Other Funds       | 186,249,694              | 150,378,531              |
| <b>TOTAL NET POSITION</b>                            | <u>\$ 321,971,304</u>    | <u>\$ 274,573,094</u>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>            | <u>\$ 351,002,548</u>    | <u>\$ 300,554,278</u>    |

**Department of the Air Force**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2017 and 2016**

| (\$ in Thousands)   | 2017 Consolidated | 2016 Consolidated |
|---|-------------------|-------------------|
| <b>CUMULATIVE RESULTS OF OPERATIONS</b>                       |                   |                   |
| <b>Beginning Balances</b>                                     | \$ 150,404,479    | \$ 165,151,059    |
| <b>Prior Period Adjustments:</b>                              |                   |                   |
| Changes in accounting principles (+/-)                        | 37,344,977        | 0                 |
| <b>Beginning balances, as adjusted (Includes Funds from</b>   | 187,749,456       | 165,151,059       |
| <b>Dedicated Collections - See Note 23)</b>                   |                   |                   |
| <b>Budgetary Financing Sources:</b>                           |                   |                   |
| Appropriations used   | 154,965,588       | 147,796,863       |
| Nonexchange revenue   | 2,797             | 2,598             |
| Donations and Forfeitures of Cash and Cash Equivalents        | 5,031             | 10,321            |
| Transfers-in/out without reimbursement                        | 0                 | 566,089           |
| <b>Other Financing Sources:</b>                               |                   |                   |
| Transfers-in/out without reimbursement (+/-)                  | (1,623,550)       | (230,597)         |
| Imputed financing from costs absorbed by others               | 587,303           | 680,182           |
| Other (+/-)   | 745,387           | (1,184,145)       |
| <b>Total Financing Sources (Includes Funds from Dedicated</b> | 154,682,556       | 147,641,311       |
| <b>Collections - See Note 23)</b>                             |                   |                   |
| <b>Net Cost of Operations (+/-) (Includes Funds from</b>      | 156,157,938       | 162,387,891       |
| <b>Dedicated Collections - See Note 23)</b>                   |                   |                   |
| <b>Net Change</b>   | (1,475,382)       | (14,746,580)      |
| <b>Cumulative Results of Operations (Includes Funds from</b>  | 186,274,074       | 150,404,479       |
| <b>Dedicated Collections - See Note 23)</b>                   |                   |                   |
| <b>UNEXPENDED APPROPRIATIONS</b>                              |                   |                   |
| <b>Beginning Balances (Includes Funds from Dedicated</b>      | \$ 124,168,615    | \$ 112,260,490    |
| <b>Collections - See Note 23)</b>                             |                   |                   |
| <b>Beginning balances, as adjusted</b>                        | 124,168,615       | 112,260,490       |
| <b>Budgetary Financing Sources:</b>                           |                   |                   |
| Appropriations received                                       | 171,036,242       | 164,994,144       |
| Appropriations transferred-in/out                             | 842,482           | 829,322           |
| Other adjustments (+/-)                                       | (5,384,521)       | (6,118,478)       |
| Appropriations used   | (154,965,588)     | (147,796,863)     |
| <b>Total Budgetary Financing Sources (Includes Funds from</b> | 11,528,615        | 11,908,125        |
| <b>Dedicated Collections - See Note 23)</b>                   |                   |                   |
| <b>Unexpended Appropriations (Includes Funds from</b>         | 135,697,230       | 124,168,615       |
| <b>Dedicated Collections - See Note 23)</b>                   |                   |                   |
| <b>Net Position</b>   | 321,971,304       | 274,573,094       |



**Department of the Air Force**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2017 and 2016**

| (\$ in Thousands)   | 2017 Combined | 2016 Combined |
|---|---------------|---------------|
| <b>Budgetary Resources:</b>   |               |               |
| Unobligated balance brought forward, Oct 1                                      | 33,345,835    | 31,546,107    |
| Unobligated balance brought forward, Oct 1, as adjusted                         | \$ 33,345,835 | \$ 31,546,107 |
| Recoveries of unpaid prior year obligations                                     | 5,237,606     | 4,732,871     |
| Other changes in unobligated balance (+ or -)                                   | (2,907,203)   | (1,171,215)   |
| Unobligated balance from prior year budget authority, net                       | 35,676,238    | 35,107,763    |
| Appropriations (discretionary and mandatory)                                    | 170,303,268   | 162,421,175   |
| Spending Authority from offsetting collections<br>(discretionary and mandatory) | 8,397,442     | 8,598,331     |
| Total Budgetary Resources   | 214,376,948   | 206,127,269   |
| <b>Status of Budgetary Resources:</b>   |               |               |
| New obligations and upward adjustments (total)                                  | 180,977,006   | 172,781,434   |
| Unobligated balance, end of year:   |               |               |
| Apportioned, unexpired accounts   | 27,226,333    | 26,589,444    |
| Exempt from apportionment, unexpired accounts                                   | 13,203        | 12,165        |
| Unapportioned, unexpired accounts   | 3,158         | 415           |
| Unexpired unobligated balance, end of year                                      | 27,242,694    | 26,602,024    |
| Expired unobligated balance, end of year  | 6,157,248     | 6,743,811     |
| Unobligated balance, end of year (total)  | 33,399,942    | 33,345,835    |
| Total Budgetary Resources   | 214,376,948   | 206,127,269   |
| <b>Change in Obligated Balance:</b>   |               |               |
| <b>Unpaid obligations:</b>  |               |               |
| Unpaid obligations, brought forward, Oct 1                                      | 84,057,960    | 75,741,009    |
| New obligations and upward adjustments  | 180,977,006   | 172,781,434   |
| Outlays (gross) (-)   | (165,755,251) | (159,731,612) |
| Recoveries of prior year unpaid obligations (-)                                 | (5,237,606)   | (4,732,871)   |
| Unpaid obligations, end of year   | 94,042,109    | 84,057,960    |
| <b>Uncollected payments:</b>  |               |               |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-)                      | (2,364,445)   | (2,218,230)   |
| Change in uncollected pymts, Fed sources (+ or -)                               | (216,864)     | (146,215)     |
| Uncollected pymts, Fed sources, end of year (-)                                 | (2,581,309)   | (2,364,445)   |
| <b>Memorandum Entries:</b>  |               |               |
| Obligated balance, start of year (+ or -)                                       | 81,693,515    | 73,522,779    |
| Obligated balance, end of year (+ or -)   | 91,460,800    | 81,693,515    |

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

**For the periods ended September 30, 2017 and 2016**

**(\$ in Thousands)**

|   | <u>2017 Combined</u> | <u>2016 Combined</u> |
|---|----------------------|----------------------|
| <b>Budget Authority and Outlays, Net:</b>   |                      |                      |
| Budget authority, gross (discretionary and mandatory)                                     | 178,700,710          | 171,019,506          |
| Actual offsetting collections (discretionary and mandatory) (-)                           | (9,077,103)          | (9,419,873)          |
| Change in uncollected payments, Federal<br>Sources (discretionary and mandatory) (+ or -) | (216,864)            | (146,215)            |
| Recoveries of prior year paid obligations<br>(discretionary and mandatory)                | 896,524              | 967,757              |
| Budget Authority, net (total) (discretionary and mandatory)                               | <u>170,303,267</u>   | <u>162,421,175</u>   |
| Outlays, gross (discretionary and mandatory)  | <u>165,755,251</u>   | <u>159,731,612</u>   |
| Actual offsetting collections (discretionary and mandatory) (-)                           | (9,077,103)          | (9,419,873)          |
| Outlays, net (total) (discretionary and mandatory)  | 156,678,148          | 150,311,739          |
| Distributed offsetting receipts (-)   | (64,658)             | 174,080              |
| Agency Outlays, net (discretionary and mandatory)   | <u>156,613,490</u>   | <u>150,485,819</u>   |

**Department of the Air Force**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|  | <u>2017 Consolidated</u> | <u>2016 Consolidated</u> |
|--|--------------------------|--------------------------|
| <b>Program Costs</b>   |                          |                          |
| Gross Costs  | \$ 167,709,997           | \$ 167,228,887           |
| Military Personnel   | 35,707,662               | 35,194,459               |
| Operations, Readiness & Support  | 58,192,753               | 54,583,996               |
| Procurement  | 45,311,469               | 49,903,402               |
| Research, Development, Test & Evaluation   | 28,036,345               | 25,582,053               |
| Family Housing & Military Construction   | 461,768                  | 1,964,977                |
|  | <hr/>                    | <hr/>                    |
| (Less: Earned Revenue)   | (11,552,059)             | (4,840,996)              |
| Net Cost before Losses/(Gains) from Actuarial Assumption Changes<br>for Military Retirement Benefits | <hr/> 156,157,938        | <hr/> 162,387,891        |
| Net Program Costs Including Assumption Changes   | 156,157,938              | 162,387,891              |
| <b>Net Cost of Operations</b>  | <u>\$ 156,157,938</u>    | <u>\$ 162,387,891</u>    |

# **General Fund**

## **Fiscal Year 2017**

### **Notes to the Principal Statements**

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

## Note 1. Significant Accounting Policies

### 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force, 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 General Fund has one financial system material weaknesses: Lack of an Integrated Financial System. The Air Force General Fund has 12 financial reporting material weaknesses: (1) Financial Reporting Deficiencies, (2) Oversight and Monitoring of Internal Controls, (3) Reconciliation of Net Cost of Operations to Budget, (4) Elimination of Intragovernmental Transactions/Balances, (5) Air Force Accounting Policies and Procedures, (6) Multi-Service Contracts, (7) Presentation of the Statement of Net Cost, (8) Environmental Liability Clean-Up Costs, (9) Accountability of Government-Furnished Equipment, (10) Valuation of Operating Materials and Supplies (OM&S), (11) Accountability of Contractor Possessed/Managed OM&S, and (12) Real Property Valuation.

The Air Force has four Significant Deficiencies: (1) Fund Balance with Treasury-The Air Force cannot always resolve outstanding unreconciled items within the Treasury Department's 60 day guideline, (2) Unsupported Accounts Receivable Balances, (3) Unsupported Accounts Payable Balances and (4) 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, and special funds. The Air Force uses these appropriations and funds to execute its missions and subsequently report on resource usage.

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



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

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

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

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

| <b>AF Account Number</b> | <b>Title</b>  |
|--------------------------|---|
| 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<br>(Incl Nonentity) | Budget Clearing Accounts  |
| 57 * 6XXX<br>(Nonentity)      | Deposit Fund Accounts   |
| 57 ****<br>(Nonentity)        | Receipt Accounts  |

**1.D. Basis of Accounting**

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

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

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

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

The Air Force receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for Working Capital Funds. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Air Force

recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Air Force's standard policy for services provided as required by OMB Circular A-25, User Charges. The Air Force recognizes revenue when earned within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

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

The 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 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. OM&S are valued using the moving average cost method. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. The Air Force determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

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

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

The Air Force when applicable, will continue to adopt SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials" permitting alternative methods in establishing opening balances.

**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 \$250,000. 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 (\$100,000 for equipment and \$20,000 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.

The Air Force when applicable, will continue to adopt SFFAS No. 50, "Establishing Opening Balances for General Property, Plant, and Equipment" permitting alternative methods in establishing opening balances.

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

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

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

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

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

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

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

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

based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The Air Force has fully implemented this policy.

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

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

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

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

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

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

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

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

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

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

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

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

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Air Force purchases

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

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

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

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

**1.X. Fiduciary Activities**

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

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

Not applicable.

**1.Z. Significant Events**

Not Applicable.

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

| As of September 30<br>(Amounts in thousands) | 2017           | 2016           |
|--|----------------|----------------|
| <b>1. Intragovernmental Assets</b>           |                |                |
| A. Fund Balance with Treasury                | \$ 553,659     | \$ 515,916     |
| B. Accounts Receivable                       | 0              | 0              |
| C. Other Assets                              | 0              | 0              |
| D. Total Intragovernmental Assets            | \$ 553,659     | \$ 515,916     |
| <b>2. Nonfederal Assets</b>                  |                |                |
| A. Cash and Other Monetary Assets            | \$ 57,825      | \$ 60,184      |
| B. Accounts Receivable                       | 7,125          | 1,824          |
| C. Other Assets                              | 0              | 0              |
| D. Total Nonfederal Assets                   | \$ 64,950      | \$ 62,008      |
| <b>3. Total Nonentity Assets</b>             | \$ 618,609     | \$ 577,924     |
| <b>4. Total Entity Assets</b>                | \$ 350,383,939 | \$ 299,976,354 |
| <b>5. Total Assets</b>                       | \$ 351,002,548 | \$ 300,554,278 |

**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.

Non-federal Accounts Receivable include interest receivable that upon collection is remitted to the U.S. Treasury as miscellaneous receipts. Non-federal 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. Non-federal Other Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for the financing of cost-type contracts with nonprofit educational research institutions for experimental research and development work when several contracts or a series of contracts require financing by advance payments. These funds are not available for use in Air Force operations.

### Note 3. Fund Balance with Treasury

| As of September 30<br>(Amounts in thousands)       | 2017                  | 2016                  |
|--|-----------------------|-----------------------|
| <b>1. Fund Balances</b>                            |                       |                       |
| A. Appropriated Funds                              | \$ 124,840,789        | \$ 115,021,635        |
| B. Revolving Funds                                 | 0                     | 0                     |
| C. Trust Funds                                     | 14,184                | 14,208                |
| D. Special Funds                                   | 5,415                 | 2,641                 |
| E. Other Fund Types                                | 136,356               | 151,253               |
| F. Total Fund Balances                             | <u>\$ 124,996,744</u> | <u>\$ 115,189,737</u> |
| <b>2. Fund Balances Per Treasury Versus Agency</b> |                       |                       |
| A. Fund Balance per Treasury                       | \$ 124,976,292        | \$ 115,194,473        |
| B. Fund Balance per Agency                         | <u>124,996,744</u>    | <u>115,189,737</u>    |
| <b>3. Reconciling Amount</b>                       | <u>\$ (20,452)</u>    | <u>\$ 4,736</u>       |

#### 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 \$20.5 million with U.S. Treasury, which is comprised of the net value of the following:

- (\$22.5) 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 Central Accounting Reporting System (CARS) 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.
- \$232,100 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 CARS. The Department of Agriculture and the Department of Transportation record these balances in their FBWT on their respective Trial Balances.
- \$1.8 million in an unavailable receipt account due to it being the Savings Deposit Program (SDP) which is a fiduciary activity. These funds are not reported in the FBWT on the Air Force Trial Balance and are only reported as part of the Fiduciary Cash balances on Footnote 24, however, the balance is included in the FBWT by TUS in CARS.

The following adjustments were necessary for the Air Force to reconcile their general ledger to the U.S. Treasury: \$5.1 million in undistributed collections, \$1.1 million in unsupported undistributed collections, \$1.3 billion in undistributed disbursements, and \$1.8 million in unsupported undistributed disbursements.

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

| As of September 30                                | 2017               | 2016               |
|---|--------------------|--------------------|
| (Amounts in thousands)                            |                    |                    |
| <b>1. Unobligated Balance</b>                     |                    |                    |
| A. Available                                      | \$ 27,239,537      | \$ 26,601,610      |
| B. Unavailable                                    | 6,160,407          | 6,744,225          |
| <br><b>2. Obligated Balance not yet Disbursed</b> | <br>\$ 94,042,109  | <br>\$ 84,057,960  |
| <br><b>3. Non budgetary FBWT</b>                  | <br>\$ 136,355     | <br>\$ 151,253     |
| <br><b>4. Non FBWT Budgetary Accounts</b>         | <br>\$ (2,581,664) | <br>\$ (2,365,311) |
| <br><b>5. Total</b>                               | <br>\$ 124,996,744 | <br>\$ 115,189,737 |

#### 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.



|                |   |
|----------------|---|
| <b>Note 4.</b> | <b>Investments and Related Interest</b> |
|----------------|---|

| As of September 30                            | 2017   |                        |                                   |                     |                            |
|---|--------|------------------------|-----------------------------------|---------------------|----------------------------|
|   | Cost   | Amortization<br>Method | Amortized<br>(Premium) / Discount | Investments,<br>Net | Market Value<br>Disclosure |
| (Amounts in thousands)                        |        |                        |                                   |                     |                            |
| <b>1. Intragovernmental Securities</b>        |        |                        |                                   |                     |                            |
| 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                                | 354    |                        | 0                                 | 354                 | 354                        |
| 5. Total Nonmarketable, Market-Based          | 354    |                        | 0                                 | 354                 | 354                        |
| B. Accrued Interest                           | 1      |                        |                                   | 1                   | 1                          |
| C. Total Intragovernmental Securities         | \$ 355 |                        | \$ 0                              | \$ 355              | \$ 355                     |
| <b>2. Other Investments</b>                   |        |                        |                                   |                     |                            |
| A. Total Other Investments                    | \$ 0   |                        | \$ 0                              | \$ 0                | N/A                        |

| As of September 30                            | 2016   |                     |                                |                  |                         |
|---|--------|---------------------|--------------------------------|------------------|-------------------------|
|   | 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                    |
| 2. Medicare Eligible Retiree Health Care Fund | 0      |                     | 0                              | 0                | 0                       |
| 3. US Army Corps of Engineers                 | 0      |                     | 0                              | 0                | 0                       |
| 4. Other Funds                                | 895    |                     | (8)                            | 887              | 887                     |
| 5. Total Nonmarketable, Market-Based          | 895    |                     | (8)                            | 887              | 887                     |
| B. Accrued Interest                           | 12     |                     |                                | 12               | 12                      |
| C. Total Intragovernmental Securities         | \$ 907 |                     | \$ (8)                         | \$ 899           | \$ 899                  |
| <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. Government-wide financial statements.

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

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

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

| As of September 30                              | 2017             |  |                          |
|---|------------------|--|--------------------------|
|   | Gross Amount Due | Allowance For<br>Estimated<br>Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands)                          |                  |  |                          |
| <b>Intragovernmental Receivables</b>            | \$ 587,392       | N/A  | \$ 587,392               |
| <b>Nonfederal Receivables (From the Public)</b> | \$ 251,024       | \$ (24,621)                                  | \$ 226,403               |
| <b>Total Accounts Receivable</b>                | \$ 838,416       | \$ (24,621)                                  | \$ 813,795               |

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

**Relevant Information for Comprehension**

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> |
|----------------|---------------------|

| As of September 30                         | 2017                        | 2016                        |
|--|-----------------------------|-----------------------------|
| (Amounts in thousands)                     |                             |                             |
| <b>1. Intragovernmental Other Assets</b>   |                             |                             |
| A. Advances and Prepayments                | \$ 22,506                   | \$ 141,535                  |
| B. Other Assets                            | 0                           | 0                           |
| C. Total Intragovernmental Other Assets    | <u>\$ 22,506</u>            | <u>\$ 141,535</u>           |
| <b>2. Nonfederal Other Assets</b>          |                             |                             |
| A. Outstanding Contract Financing Payments | \$ 22,126,910               | \$ 20,070,478               |
| B. Advances and Prepayments                | 4,340                       | 11,144                      |
| C. Other Assets (With the Public)          | 0                           | 0                           |
| D. Total Nonfederal Other Assets           | <u>\$ 22,131,250</u>        | <u>\$ 20,081,622</u>        |
| <b>3. Total Other Assets</b>               | <u><u>\$ 22,153,756</u></u> | <u><u>\$ 20,223,157</u></u> |

### 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 Air Force 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 Air Force. The Air Force 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 \$19.2 billion in contract financing payments and \$2.9 billion in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

|                |                                       |
|----------------|---------------------------------------|
| <b>Note 7.</b> | <b>Cash and Other Monetary Assets</b> |
|----------------|---------------------------------------|

| As of September 30  | 2017 |        | 2016 |        |
|---|------|--------|------|--------|
| (Amounts in thousands)  |      |        |      |        |
| <b>1. Cash</b>  | \$   | 38,969 | \$   | 38,684 |
| <b>2. Foreign Currency</b>  |      | 18,856 |      | 21,500 |
| <b>3. Other Monetary Assets</b>                                     |      | 0      |      | 0      |
| <b>4. Total Cash, Foreign Currency, &amp; Other Monetary Assets</b> | \$   | 57,825 | \$   | 60,184 |

**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 \$57.8 million is restricted.

|                |   |
|----------------|---|
| <b>Note 8.</b> | <b>Direct Loans and Loan Guarantees</b> |
|----------------|---|

Not applicable

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

| As of September 30                     | 2017                 | 2016                 |
|--|----------------------|----------------------|
| (Amounts in thousands)                 |                      |                      |
| 1. Inventory, Net                      | \$ 0                 | \$ 0                 |
| 2. Operating Materials & Supplies, Net | 55,240,648           | 42,076,994           |
| 3. Stockpile Materiel, Net             | 0                    | 0                    |
| <b>4. Total</b>                        | <b>\$ 55,240,648</b> | <b>\$ 42,076,994</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 in Reserve for Future Use includes all materiel that are maintained because they are not readily available in the market and there is more than a remote chance that they will eventually be needed.

The category Held for Repair generally includes all economically reparable 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 reparable) 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 balance.

The Air Force has valued some of its Inventory and Related Property (I&RP) using Deemed Cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3 are not yet fully in place. Therefore, the Air Force is not making an unreserved assertion with respect to this line item.

|                       |
|-----------------------|
| <b>Inventory, Net</b> |
|-----------------------|

Not applicable

## Operating Materials and Supplies, Net

| As of September 30                     | 2017                 |                       |                      | Valuation Method |
|--|----------------------|-----------------------|----------------------|------------------|
|  | OM&S Gross Value     | Revaluation Allowance | OM&S, Net            |                  |
| (Amounts in thousands)                 |                      |                       |                      |                  |
| <b>1. OM&amp;S Categories</b>          |                      |                       |                      |                  |
| A. Held for Use                        | \$ 43,335,931        | \$ 0                  | \$ 43,335,931        | SP, LAC, MAC     |
| B. Held for Repair                     | 11,904,717           | 0                     | 11,904,717           | SP, LAC, MAC     |
| C. Excess, Obsolete, and Unserviceable | 104,088              | (104,088)             | 0                    | NRV              |
| <b>D. Total</b>                        | <b>\$ 55,344,736</b> | <b>\$ (104,088)</b>   | <b>\$ 55,240,648</b> |                  |

| As of September 30                     | 2016                 |                       |                      | Valuation Method |
|--|----------------------|-----------------------|----------------------|------------------|
|  | OM&S Gross Value     | Revaluation Allowance | OM&S, Net            |                  |
| (Amounts in thousands)                 |                      |                       |                      |                  |
| <b>1. OM&amp;S Categories</b>          |                      |                       |                      |                  |
| A. Held for Use                        | \$ 6,298,146         | \$ 0                  | \$ 6,298,146         | SP, LAC, MAC     |
| B. Held for Repair                     | 35,778,848           | 0                     | 35,778,848           | SP, LAC, MAC     |
| C. Excess, Obsolete, and Unserviceable | 123,478              | (123,478)             | 0                    | NRV              |
| <b>D. Total</b>                        | <b>\$ 42,200,472</b> | <b>\$ (123,478)</b>   | <b>\$ 42,076,994</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> |
|-----------------|---|

As of September 30

2017

|   | Depreciation/<br>Amortization<br>Method | Service<br>Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value |
|---|---|-----------------|----------------------|--|-------------------|
| (Amounts in thousands)                      |   |                 |                      |  |                   |
| <b>1. Major Asset Classes</b>               |   |                 |                      |  |                   |
| A. Land                                     | N/A                                     | N/A             | \$ 442,297           | N/A  | \$ 442,297        |
| B. Buildings, Structures, and<br>Facilities | S/L                                     | 20, 40, or 45   | 85,283,639           | \$ (47,449,411)                                | 37,834,228        |
| C. Leasehold Improvements                   | S/L                                     | Lease term      | 75,268               | (24,324)                                       | 50,944            |
| D. Software                                 | S/L                                     | 2-5 or 10       | 629,185              | (436,840)                                      | 192,345           |
| E. General Equipment                        | S/L                                     | Various         | 336,806,460          | (236,793,435)                                  | 100,013,025       |
| F. Assets Under Capital<br>Lease            | S/L                                     | Lease term      | 0                    | 0  | 0                 |
| G. Construction-in- Progress                | N/A                                     | N/A             | 9,528,082            | N/A  | 9,528,082         |
| H. Other                                    |   |                 | 0                    | 0  | 0                 |
| I. Total General PP&E                       |   |                 | \$ 432,764,931       | \$ (284,704,010)                               | \$ 148,060,921    |

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                          | 2016                                    |                 |                      |  |                   |
|---|---|-----------------|----------------------|--|-------------------|
|   | Depreciation/<br>Amortization<br>Method | Service<br>Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value |
| (Amounts in thousands)                      |   |                 |                      |  |                   |
| <b>1. Major Asset Classes</b>               |   |                 |                      |  |                   |
| A. Land                                     | N/A                                     | N/A             | \$ 441,027           | N/A  | \$ 441,027        |
| B. Buildings, Structures, and<br>Facilities | S/L                                     | 20, 40, or 45   | 81,090,030           | \$ (44,852,645)                                | 36,237,385        |
| C. Leasehold Improvements                   | S/L                                     | Lease Term      | 76,289               | (21,819)                                       | 54,470            |
| D. Software                                 | S/L                                     | 2-5 or 10       | 638,285              | (443,817)                                      | 194,468           |
| E. General Equipment                        | S/L                                     | Various         | 339,124,951          | (257,571,653)                                  | 81,553,298        |
| F. Assets Under Capital<br>Lease            | S/L                                     | Lease Term      | 0                    | 0  | 0                 |
| G. Construction-in-Progress                 | N/A                                     | N/A             | 3,840,579            | N/A  | 3,840,579         |
| H. Other                                    |   |                 | 0                    | 0  | 0                 |
| I. Total General PP&E                       |   |                 | \$ 425,211,161       | \$ (302,889,934)                               | \$ 122,321,227    |

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

### **Relevant Information for Comprehension**

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.

The Air Force has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Air Force's use and disposal of real property (land and buildings) located outside the United States.

The Air Force does not have acquisition value for all General PP&E and uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The Federal Accounting Standards Advisory Board issued SFFAS No. 50, "Establishing Opening Balances for General Property, Plant and Equipment" permitting alternative methods in establishing opening balances for General PP&E.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as those properties the Department still owns, but are being held awaiting disposition to another entity.

Extensive efforts are in progress to achieve audit readiness. The ongoing discovery and validation phases resulted in adjustments reflected in prior period adjustments or current year gains/losses. The Air Force has valued some of its General Fund Property Plant and Equipment (PP&E) using Deemed Cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for PP&E in accordance with SFFAS 6 are not yet fully in place. Therefore, the Air Force is not making an unreserved assertion with respect to this line item.

## Assets Under Capital Lease

| As of September 30                                     | 2017 | 2016 |
|--|------|------|
| (Amounts in thousands)                                 |      |      |
| <b>1. Entity as Lessee, Assets Under Capital Lease</b> |      |      |
| A. Land and Buildings                                  | \$ 0 | \$ 0 |
| B. Equipment   | 0    | 0    |
| C. Accumulated Amortization                            | (0)  | (0)  |
| D. Total Capital Leases                                | \$ 0 | \$ 0 |

## Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30  | 2017          | 2016          |
|---|---------------|---------------|
| <b>1. Intragovernmental Liabilities</b>                         |               |               |
| A. Accounts Payable   | \$ 0          | \$ 0          |
| B. Debt   | 0             | 0             |
| C. Other  | 238,623       | 255,175       |
| <b>D. Total Intragovernmental Liabilities</b>                   | \$ 238,623    | \$ 255,175    |
| <b>2. Nonfederal Liabilities</b>                                |               |               |
| A. Accounts Payable   | \$ 133,513    | \$ 20,396     |
| B. Military Retirement and<br>Other Federal Employment Benefits | 1,022,962     | 1,038,416     |
| C. Environmental and Disposal Liabilities                       | 10,231,674    | 9,452,138     |
| D. Other Liabilities  | 4,964,821     | 2,746,612     |
| <b>E. Total Nonfederal Liabilities</b>                          | \$ 16,352,970 | \$ 13,257,562 |
| <b>3. Total Liabilities Not Covered by Budgetary Resources</b>  | \$ 16,591,593 | \$ 13,512,737 |
| <b>4. Total Liabilities Covered by Budgetary Resources</b>      | \$ 12,439,651 | \$ 12,468,447 |
| <b>5. Total Liabilities</b>                                     | \$ 29,031,244 | \$ 25,981,184 |



### **Relevant Information for Comprehension**

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

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

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

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

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

| As of September 30                     | 2017                |  |                     |
|--|---------------------|--|---------------------|
|  | Accounts Payable    | Interest, Penalties, and Administrative Fees | Total               |
| (Amounts in thousands)                 |                     |  |                     |
| 1. Intragovernmental Payables          | \$ 2,200,761        | \$ N/A                                       | \$ 2,200,761        |
| 2. Nonfederal Payables (to the Public) | 3,121,938           | (84)   | 3,121,854           |
| <b>3. Total</b>                        | <b>\$ 5,322,699</b> | <b>\$ (84)</b>                               | <b>\$ 5,322,615</b> |

| As of September 30                     | 2016                |  |                     |
|--|---------------------|--|---------------------|
|  | Accounts Payable    | Interest, Penalties, and Administrative Fees | Total               |
| (Amounts in thousands)                 |                     |  |                     |
| 1. Intragovernmental Payables          | \$ 2,021,975        | \$ N/A                                       | \$ 2,021,975        |
| 2. Nonfederal Payables (to the Public) | 3,681,195           | (0)  | 3,681,195           |
| <b>3. Total</b>                        | <b>\$ 5,703,170</b> | <b>\$ 0</b>                                  | <b>\$ 5,703,170</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 account payable transactions by customer. Buyer-side accounts payable are adjusted to agree with intra-agency seller-side accounts receivable.

The \$84,400 abnormal balance in Interest, Penalties, and Administrative Fees for FY 2017 is the result of transactions in Air Force Reserve Operations & Maintenance appropriations for base support and tactical intelligences/special activities.

|                 |             |
|-----------------|-------------|
| <b>Note 13.</b> | <b>Debt</b> |
|-----------------|-------------|

Not applicable

|                 |   |
|-----------------|---|
| <b>Note 14.</b> | <b>Environmental Liabilities and Disposal Liabilities</b> |
|-----------------|---|

As of September 30

2017

2016

(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) | \$ 7,059,020 | \$ 6,595,349 |
| 2. Active Installations—Military Munitions Response Program (MMRP)  | 326,150      | 544,806      |
| 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              | 52,908    | 14,722    |
| 2. Environmental Closure Requirements           | 301,740   | 1,253,417 |
| 3. Environmental Response at Operational Ranges | 0         | 0         |
| 4. Asbestos                                     | 1,694,501 | 467,582   |
| 5. Non-Military Equipment                       | 0         | 0         |
| 6. Other  | 0         | 0         |

C. Base Realignment and Closure Installations

|   |           |           |
|---|-----------|-----------|
| 1. Installation Restoration Program                       | 1,590,959 | 1,526,175 |
| 2. Military Munitions Response Program                    | 5,057     | 2,662     |
| 3. Environmental Corrective Action / Closure Requirements | 556       | 685       |
| 4. Asbestos   | 54        | 80        |
| 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                  | 137,018 | 0 |
| 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**

|               |               |
|---------------|---------------|
| \$ 11,167,963 | \$ 10,405,478 |
|---------------|---------------|

## **Relevant Information for Comprehension**

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

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

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

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

### **Method for Assigning Estimated Total Clean-up 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 recognized the full liability for cleanup costs associated with above-/under-ground storage tanks placed into service prior to October 1, 1997, since 94.5% of the estimate liability is fully recognized as of fiscal year-end 2017. Additionally, the amount remaining to be amortized was considered immaterial to the ECR and OEL balances. Estimated environmental liabilities associated with wastewater lagoons/ponds placed in service after September 30, 1997 that have future environmental closure and/or environmental cleanup requirements are systematically recognized over the useful life or other measure, where appropriate (e.g., remaining landfill area containing waste requiring final cover). Estimates will be re-evaluated on an annual basis to appropriately capture changes in liabilities in future years. For asbestos cleanup costs, Management elected to recognize the full liability because the costs are not intended to be recovered primarily through user charges. Additionally, 95.0% of the potentially asbestos containing assets with estimated liabilities were placed into service prior to October 1, 2012. For event-driven liabilities, expenses are recognized and the associated liabilities are reduced in the operating periods in which work was performed at environmental sites.

## **Types of Environmental and Disposal Liabilities Identified**

Air Force environmental liabilities are driven by events or existing assets. Event-driven liabilities are the estimated costs to manage and execute the investigation, remediation, and monitoring of 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 Lead Agent or Executive Agent. Lead Agents or 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 Lead Agent for Formerly Used Defense Sites. The Department of the Navy is the Lead 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, Plans, or Applicable Laws and Regulations**

The Air Force is not aware of any pending changes but the liabilities can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

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

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.

In addition to the Other Accrued Liabilities – Non-BRAC (Line 1.B), the Air Force has an unrecorded liability for additional Environmental Closure Requirements (ECR) and Asbestos assets. The Air Force is continuing to implement corrective action plans for ECR and Asbestos liabilities. These corrective action plans address the ability to estimate asbestos assets not measured in square feet and environmental liability estimates for the remaining ECR asset categories. Therefore, the OEL ECR and Asbestos liabilities may change as more data becomes available and cost estimation methodologies are fully developed, executed, and refined. These ongoing corrective action plans will need to be fully implemented to address the uncertainty regarding the accounting estimates used to calculate the reported environmental liabilities.

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 regulatory changes in the state of Alaska.

There is also uncertainty regarding emerging contaminants, Perfluorooctanoic Acid (PFOA) and Perfluorooctane Sulfonic Acid (PFOS), due to the lack of promulgated cleanup standards at some installations and limited information.

## Other Disclosures

### *Year-over-year Changes*

#### Accrued Environmental Restoration Liabilities (Line 1.A)

The total Air Force Accrued Environmental Restoration Liabilities (Line 1.A) increased by a total of 3% (IRP = 6.6% and MMRP = -67.0%) from 2016 to 2017. The increase in the IRP programming is mostly due to preliminary investigations of the emerging contaminants perfluorooctane sulfonate and perfluorooctanoic acid (PFOS/PFOA). The bulk of the preliminary assessments (PAs) and site inspections (SIs) for PFOS/PFOA are nearly complete but additional investigation will be required to fully delineate contamination. Results from PA/SIs will verify the locations that will need to progress to more in-depth studies, which in turn will lead to better cost to complete estimates. As for the decrease in MMRP programming, this was mostly due to successfully negotiating an agreement with the regulators to avoid the \$220 million wetlands mitigation for four MMRP sites at Beale AFB.

#### Other Accrued Environmental Liabilities – Non BRAC (Line 1.B)

The total Air Force Other Accrued Environmental Liabilities – Non-BRAC (Line 1.B) increased by a total of 18.1% (Environmental Corrective Action (ECA) = 259.4%, Environmental Closure Requirements (ECR) = -75.9%, Environmental Response at Operational Ranges (EROR) = 0.0%, and Asbestos = 262.4%) from FY 2016 to FY 2017, due to partial implementation of corrective action plans which improved the process to develop supportable estimates for these environmental liability categories. The processes used to develop supportable estimates will continue to evolve over time and could result in future changes to these recorded estimates.

#### Environmental Corrective Action (Line 1.B.1)

The Air Force recorded an estimated liability for ECA of \$52.9 million in FY 2017. This was an increase of \$38.2 million over the \$14.7 million recorded in FY 2016. The ECA estimate includes future estimated liabilities not funded as of FY 2017 (cost-to-complete) and unliquidated obligations associated with active environmental remediation efforts not funded by DERP. In FY 2017, the Air Force updated procedures for capturing remediation efforts to include extended durations of CTC estimates, resulting in a substantial increase of ECA liabilities. ECA cost estimates were generated using cost estimation software (RACER) and historical costs, when available.

#### Environmental Closure Requirements (Line 1.B.2)

The Air Force recorded an estimated liability for ECR assets of \$301.7 million in FY 2017. This was a decrease of \$951.7 million over the \$1.3 billion recorded in FY 2016. In FY 2017, the Air Force prioritized the development and revision of seven cost estimation methodologies based on the potential impact on the OEL balance. Revisions applied updated cost factors, historical costs, and closure assumptions to generate ECR liabilities using cost estimation software (RACER), historical costs, and/or established cost factors (RS Means and unit costs from other DoD Components).

#### Environmental Response at Operational Ranges (Line 1.B.3)

CFR §266.202 exempts military munitions on active and inactive military ranges from the definition of hazardous waste. Therefore, these military munitions do not meet the criteria of an environmental liability. Additionally, the Air Force does not have active ranges with off-site migration. Therefore, the Air Force does not have a recorded liability for Environmental Response at Operational Ranges. Notwithstanding the exemption provided in CFR § 266.202 there are two circumstances in which military munitions on a military range would become a hazardous waste requiring evaluation as to whether an environmental liability exists. These two circumstances are: 1) In accordance with CFR § 266.202 (d), “hazardous waste migration” off the range would need to be evaluated as a potential environmental liability; and 2) If DoD made a formal decision to close the military range, it would no longer meet the definition of an active or inactive range and the military munitions discharged would then be classified as a hazardous waste that would need to be evaluated as a potential environmental liability.



Asbestos (Line 1.B.4)

The Air Force recorded an estimated liability for Asbestos of \$1.6 billion in FY 2017. This was an increase of \$1.2 billion over the \$467.6 million recorded in FY 2016. In FY 2017, the Air Force updated its cost estimation methodology for asbestos liabilities using existing asbestos survey and abatement data for assets similar in age, size, and type. The updated methodology leverages this data to estimate survey and abatement costs for each potentially asbestos containing asset measured in, or convertible to, square feet.

Non-Military Equipment (Line 1.B.5)

The Air Force's aircraft inventory represents the most material component of general equipment. The environmental disposal liability associated with aircraft is reported in line 1.D.2. The EDL for non-military equipment is probable, but not estimable for this period. The Air Force expects that future estimates of the EDL associated with these assets will result in immaterial changes to line 1.B.5.

Other (Line 1.B.6)

The Air Force performed due diligence and is not aware of any items that meet the established criteria to be reported under this line item for FY 2017.

BRAC (Line 1.C)

The total Air Force BRAC environmental liabilities (Section C) increased by \$67.4 million (4%) from 2016 to 2017.

The AF BRAC Installation Restoration Program line (Section C, line 1) increased by \$65 million from 2016. Of the \$65 million increase, \$26 million is due to a change in reporting civilian salaries, with associated travel and training costs, under the IRP program, rather than under the O&M account. The change in manpower reporting was due to alignment with OSD reporting and guidance based on how other services report their manpower. The second largest contributor is \$24 million due to the progress of performance-based remediation (PBR) contracts at BRAC installations. A majority of the increase due to PBR contracts is at the former Galena Forward Operating Location (FOL) and Griffiss AFB, due to increased durations of remedial action to clean-up to revised standards. Additionally, \$9 million is attributed to ATSDR and DSMOA due to an increase in health assessments and additional remedial actions executed in order to address emerging contaminants, Perfluorooctanoic Acid (PFOA) and Perfluorooctane Sulfonic Acid (PFOS). The remaining increase of \$6 million is due to the response actions required to address the emerging contaminant, PFOA/PFOS.

The AF BRAC Military Munitions Response Program line (Section C, line 2) increased by \$2.4 million (90%) from 2016. This increase is due to the following: Skeet Range Clean-up actions at the former Bergstrom AFB after lead shot and clay debris were identified in 2016; and, additional clean-up activities at two MMRP sites at the former Eaker AFB.

The AF BRAC Environmental Corrective Action / Closure Requirements line (Section C, line 3) decreased by \$129,000 (19%) from 2016, as the following projects continued to be liquidated during 2016: requirements at the former George AFB to remove a previously unknown oil water separator and underground storage tank; soil removal at the former March AFB; and, removal of an underground storage tank at the former Mather AFB.

The AF BRAC Asbestos line (Section C, line 4) decreased by \$26,000 (33%) from 2016, as the following projects continued to be liquidated during 2016: discovery of asbestos requiring abatement at former Chanute AFB and former Brooks City Base.

Non-Nuclear Powered Military Equipment (Line 1.D.2)

The Environmental Disposal for Military Equipment/Weapons, Non-Nuclear Powered Military Equipment increased to \$137 million from 0 in 2016. This increase is due to the implementation of a model to estimate the environmental component of disposal of fixed-wing aircraft based on comparable historic disposal cost. A validated model was not available to estimate the liability associated with fixed-wing aircraft in 2016.

## Emerging Contaminants

In FY 2015, the DERP program identified perfluorooctane sulfonate (PFOS) and Perfluorooctanoic Acid (PFOA) as contaminants requiring active remediation due to the threat of adversely affecting human health and the environment. PFOS and PFOA are compounds found in Aqueous Film-Forming Foam (AFFF), which was used by the Air Force to suppress petroleum fires from 1970-2016. The chemicals are found in all media types and generally resistant to environmental degradation processes. In 2015, AFCEC/CZ awarded an enterprise-wide project to assess the occurrence of PFOS and PFOA, particularly in groundwater, at Air Force locations where AFFF may have been released. In 2016, the Air Force awarded several projects to conduct site inspections for the presence of PFOS and PFOA and began mitigating their occurrence in drinking water at Eielson, Dover, Joint Base Cape Cod, and Wright Patterson AFBs. In 2017, The Air Force completed testing for PFOS and PFOA in drinking water at all installations and continued the investigation phase and mitigation actions at those installations with contaminated drinking water. By the end of fiscal year 2017, the Air Force had completed 100% of the drinking water testing, 98% of all preliminary assessments, 7% of the site inspections, and has mitigation actions underway for drinking water at 17 installations.

For AF BRAC, there are 25 installations expected to complete site inspection phase that will require follow-on investigation (RI/FS), and 15 of those installations are expected to require mitigation. Mitigation is expected due to the following factors: state promulgated cleanup requirements in Texas, Michigan, and New Hampshire; response specifically at the former Pease AFB due to the USEPA Administrative Order; and the construction and/or mitigation to mitigate risk to human health regarding safe drinking water if levels are found over the USEPA Health Advisory. These 15 BRAC installations include the following: Bergstrom, Castle, Chanute, Griffiss, Grissom, K.I. Sawyer, Kelly, Loring, March, Mather, Myrtle Beach, Pease, Plattsburgh, Reese, and Wurtsmith.

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

## Ongoing Corrective Action Impacts

The Air Force understands that additional assets on active installations with environmental closure requirements and asbestos liabilities exist, but are not yet reported as part of the Other Accrued Liabilities – Non-BRAC (Line 1.B) balance due to ongoing implementation of corrective actions. Future liabilities for ECR and Asbestos will be estimated for FY 2018, as corrective action plans continue to be implemented. To help mitigate significant financial statement impacts of asset related environmental liabilities not yet estimated, the Air Force identified and estimated environmental liabilities for assets with the most significant and material impact to asbestos and ECR liabilities using subject matter specialists and current real property inventories to make these determinations. For ECR, corrective action plans are being implemented for the following asset categories: Pipelines/Piping; Underground OWSs; Above-Ground OWSs; Wastewater Treatment Tanks and Basins; Hazardous Waste Generation / Accumulation Areas, Hazardous Waste Storage Areas, Recycling Centers, and Universal Waste Storage Areas; Water Supply Wells; Septic Tanks; and PCB Transformers. For Asbestos, corrective action plans are being implemented to estimate assets not measured in, or convertible to, square feet.

Due to ongoing corrective action plans being implemented across the OEL program, updates to the estimated liabilities associated with OEL sub-line items are expected in FY 2018. Until full implementation of these programmatic changes, balances will continue to reflect only a portion of the liabilities in the current year.

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

As of September 30

(Amounts in thousands)

|  | 2017                |                      |                      |
|--|---------------------|----------------------|----------------------|
|  | Current Liability   | Noncurrent Liability | Total                |
| <b>1. Intragovernmental</b>                        |                     |                      |                      |
| A. Advances from Others                            | \$ 982,531          | \$ 0                 | \$ 982,531           |
| B. Deposit Funds and Suspense Account Liabilities  | (417,316)           | 0                    | (417,316)            |
| C. Disbursing Officer Cash                         | 60,393              | 0                    | 60,393               |
| D. Judgment Fund Liabilities                       | 22,517              | 0                    | 22,517               |
| E. FECA Reimbursement to the Department of Labor   | 93,284              | 108,470              | 201,754              |
| F. Custodial Liabilities                           | 0                   | 4,556                | 4,556                |
| G. Employer Contribution and Payroll Taxes Payable | 82,489              | 0                    | 82,489               |
| H. Other Liabilities                               | 14,427              | 0                    | 14,427               |
| I. Total Intragovernmental Other Liabilities       | <u>\$ 838,325</u>   | <u>\$ 113,026</u>    | <u>\$ 951,351</u>    |
| <b>2. Nonfederal</b>                               |                     |                      |                      |
| A. Accrued Funded Payroll and Benefits             | \$ 1,418,062        | \$ 0                 | \$ 1,418,062         |
| B. Advances from Others                            | 201,591             | 0                    | 201,591              |
| C. Deferred Credits                                | 0                   | 0                    | 0                    |
| D. Deposit Funds and Suspense Accounts             | 553,671             | 0                    | 553,671              |
| 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                   | 2,562,104           | 0                    | 2,562,104            |
| H. Capital Lease Liability                         | 0                   | 0                    | 0                    |
| I. Contract Holdbacks                              | 110,970             | 0                    | 110,970              |
| J. Employer Contribution and Payroll Taxes Payable | 255,325             | 0                    | 255,325              |
| K. Contingent Liabilities                          | 0                   | 5,459,799            | 5,459,799            |
| L. Other Liabilities                               | (3)                 | 0                    | (3)                  |
| M. Total Nonfederal Other Liabilities              | <u>\$ 5,101,720</u> | <u>\$ 5,459,799</u>  | <u>\$ 10,561,519</u> |
| <b>3. Total Other Liabilities</b>                  | <u>\$ 5,940,045</u> | <u>\$ 5,572,825</u>  | <u>\$ 11,512,870</u> |

| As of September 30                                 | 2016                       |                            |                            |
|--|----------------------------|----------------------------|----------------------------|
|  | Current Liability          | Noncurrent Liability       | Total                      |
| (Amounts in thousands)                             |                            |                            |                            |
| <b>1. Intragovernmental</b>                        |                            |                            |                            |
| A. Advances from Others                            | \$ 798,741                 | \$ 0                       | \$ 798,741                 |
| B. Deposit Funds and Suspense Account Liabilities  | (306,094)                  | 0                          | (306,094)                  |
| C. Disbursing Officer Cash                         | 60,958                     | 0                          | 60,958                     |
| D. Judgment Fund Liabilities                       | 20,011                     | 0                          | 20,011                     |
| E. FECA Reimbursement to the Department of Labor   | 98,406                     | 117,281                    | 215,687                    |
| F. Custodial Liabilities                           | 0                          | 1,050                      | 1,050                      |
| G. Employer Contribution and Payroll Taxes Payable | 82,105                     | 0                          | 82,105                     |
| H. Other Liabilities                               | 19,478                     | 0                          | 19,478                     |
| I. Total Intragovernmental Other Liabilities       | <u>\$ 773,605</u>          | <u>\$ 118,331</u>          | <u>\$ 891,936</u>          |
| <b>2. Nonfederal</b>                               |                            |                            |                            |
| A. Accrued Funded Payroll and Benefits             | \$ 1,243,016               | \$ 0                       | \$ 1,243,016               |
| B. Advances from Others                            | 153,438                    | 0                          | 153,438                    |
| C. Deferred Credits                                | 0                          | 0                          | 0                          |
| D. Deposit Funds and Suspense Accounts             | 457,347                    | 0                          | 457,347                    |
| E. Temporary Early Retirement Authority            | 0                          | 0                          | 0                          |
| F. Nonenvironmental Disposal Liabilities           |                            |                            |                            |
| (1) Military Equipment (Nonnuclear)                | 0                          | 0                          | 0                          |
| (2) Excess/Obsolete Structures                     | 0                          | 0                          | 0                          |
| (3) Conventional Munitions Disposal                | 0                          | 0                          | 0                          |
| G. Accrued Unfunded Annual Leave                   | 2,504,444                  | 0                          | 2,504,444                  |
| H. Capital Lease Liability                         | 0                          | 0                          | 0                          |
| I. Contract Holdbacks                              | 176,312                    | 0                          | 176,312                    |
| J. Employer Contribution and Payroll Taxes Payable | 253,253                    | 0                          | 253,253                    |
| K. Contingent Liabilities                          | 0                          | 3,149,267                  | 3,149,267                  |
| L. Other Liabilities                               | 0                          | 0                          | 0                          |
| M. Total Nonfederal Other Liabilities              | <u>\$ 4,787,810</u>        | <u>\$ 3,149,267</u>        | <u>\$ 7,937,077</u>        |
| <b>3. Total Other Liabilities</b>                  | <u><b>\$ 5,561,415</b></u> | <u><b>\$ 3,267,598</b></u> | <u><b>\$ 8,829,013</b></u> |

## Capital Lease Liability

The General Fund has no Capital Lease Liability

### Relevant Information for Comprehension

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

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

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

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

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

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

Contingent Liabilities includes \$5.5 billion related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Air Force has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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

The abnormal balance in Intragovernmental Deposit Funds and Suspense Account Liabilities of \$417.3 million is due to a change in reporting. In the 4th Quarter, FY 2016, the Air Force began moving various withholdings from clearing suspense accounts to deposit fund accounts. While the transition is in process, intransit collections are being reported in the deposit funds which are mapped to a different line on Note 15- Nonfederal Deposit Funds and Suspense Accounts. The offsetting intransits are residing in the suspense accounts, which are mapped to Intragovernmental Deposit Funds and Suspense Account Liabilities. This change in process is creating an abnormal balance as they are mapped to different lines on Note 15.

## **Note 16. Commitments and Contingencies**

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

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

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$1.4 billion. 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 \$1.5 billion.

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

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of Sept 30, 2017, valued at \$2.4 billion, included in Nonfederal Contingent Liabilities. As of Sept 30, 2017, the Air Force was party to 2,150 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> |
|-----------------|--|

| As of September 30   | 2017         |  |                      |
|--|--------------|--|----------------------|
|  | 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  | \$ 1,022,963 | \$ 0                                     | \$ 1,022,963         |
| B. Voluntary Separation Incentive Programs                                 | 0            | 0  | 0                    |
| C. DoD Education Benefits Fund   | 0            | 0  | 0                    |
| D. Other   | 4,833        | (4,833)                                  | 0                    |
| E. Total Other Benefits  | \$ 1,027,796 | \$ (4,833)                               | \$ 1,022,963         |
| <b>3. Total Military Retirement and Other Federal Employment Benefits:</b> | \$ 1,027,796 | \$ (4,833)                               | \$ 1,022,963         |

| As of September 30   | 2016         |  |                      |
|--|--------------|--|----------------------|
|  | 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  | \$ 1,038,416 | \$ 0                                     | \$ 1,038,416         |
| B. Voluntary Separation Incentive Programs                                 | 0            | 0  | 0                    |
| C. DoD Education Benefits Fund   | 0            | 0  | 0                    |
| D. Other   | 5,107        | (5,107)                                  | 0                    |
| E. Total Other Benefits  | \$ 1,043,523 | \$ (5,107)                               | \$ 1,038,416         |
| <b>3. Total Military Retirement and Other Federal Employment Benefits:</b> | \$ 1,043,523 | \$ (5,107)                               | \$ 1,038,416         |

## Relevant Information for Comprehension

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

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

Interest rate assumptions utilized for discounting were as follows:

### Discount Rates

For wage benefits: 2.683% in Year 1 and Years thereafter;

For medical benefits: 2.218% in Year 1 and Years thereafter.

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

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

| <b>CBY</b>     | <b>COLA</b> | <b>CPIM</b> |
|----------------|-------------|-------------|
| 2017           | N/A         | N/A         |
| 2018           | 1.22%       | 3.20%       |
| 2019           | 1.35%       | 3.52%       |
| 2020           | 1.59%       | 3.80%       |
| 2021           | 1.99%       | 3.99%       |
| 2022 and after | 2.26%       | 3.91%       |

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in FY 2017 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.



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

**Intragovernmental Costs and Exchange Revenue**

As of September 30

(Amounts in thousands)

**Military Retirement Benefits**

1. Gross Cost

|                           |             |             |
|---------------------------|-------------|-------------|
| A. Intragovernmental Cost | \$ 0        | \$ 0        |
| B. Nonfederal Cost        | 0           | 0           |
| C. Total Cost             | <u>\$ 0</u> | <u>\$ 0</u> |

2. Earned Revenue

|                              |             |             |
|------------------------------|-------------|-------------|
| A. Intragovernmental Revenue | \$ 0        | \$ 0        |
| B. Nonfederal Revenue        | 0           | 0           |
| C. Total Revenue             | <u>\$ 0</u> | <u>\$ 0</u> |

3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

Total Net Cost

|             |             |
|-------------|-------------|
| <u>\$ 0</u> | <u>\$ 0</u> |
|-------------|-------------|

**Civil Works**

1. Gross Cost

|                           |             |             |
|---------------------------|-------------|-------------|
| A. Intragovernmental Cost | \$ 0        | \$ 0        |
| B. Nonfederal Cost        | 0           | 0           |
| C. Total Cost             | <u>\$ 0</u> | <u>\$ 0</u> |

2. Earned Revenue

|                              |             |             |
|------------------------------|-------------|-------------|
| A. Intragovernmental Revenue | \$ 0        | \$ 0        |
| B. Nonfederal Revenue        | 0           | 0           |
| C. Total Revenue             | <u>\$ 0</u> | <u>\$ 0</u> |

3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

Total Net Cost

|             |             |
|-------------|-------------|
| <u>\$ 0</u> | <u>\$ 0</u> |
|-------------|-------------|

**Military Personnel**

1. Gross Cost

|                           |                      |                      |
|---------------------------|----------------------|----------------------|
| A. Intragovernmental Cost | \$ 7,511,528         | \$ 7,516,476         |
| B. Nonfederal Cost        | 28,196,134           | 27,677,982           |
| C. Total Cost             | <u>\$ 35,707,662</u> | <u>\$ 35,194,458</u> |

2. Earned Revenue

|                              |                     |                     |
|------------------------------|---------------------|---------------------|
| A. Intragovernmental Revenue | \$ (528,100)        | \$ (454,901)        |
| B. Nonfederal Revenue        | (24,172)            | (26,665)            |
| C. Total Revenue             | <u>\$ (552,272)</u> | <u>\$ (481,566)</u> |

3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

Total Net Cost

|                      |                      |
|----------------------|----------------------|
| <u>\$ 35,155,390</u> | <u>\$ 34,712,892</u> |
|----------------------|----------------------|

**Operations, Readiness & Support**

|   |                      |                      |
|---|----------------------|----------------------|
| 1. Gross Cost   |                      |                      |
| A. Intragovernmental Cost   | \$ (15,128,543)      | \$ (3,471,816)       |
| B. Nonfederal Cost  | 73,321,296           | 58,055,812           |
| C. Total Cost   | <u>\$ 58,192,753</u> | <u>\$ 54,583,996</u> |
| 2. Earned Revenue   |                      |                      |
| A. Intragovernmental Revenue  | \$ 241,209           | \$ 161,392           |
| B. Nonfederal Revenue   | (272,816)            | (269,647)            |
| C. Total Revenue  | <u>\$ (31,607)</u>   | <u>\$ (108,255)</u>  |
| 3. Losses/(Gains) from Actuarial Assumption<br>Changes for Military Retirement Benefits | \$ 0                 | \$ 0                 |
| Total Net Cost  | <u>\$ 58,161,146</u> | <u>\$ 54,475,741</u> |

**Procurement**

|   |                       |                       |
|---|-----------------------|-----------------------|
| 1. Gross Cost   |                       |                       |
| A. Intragovernmental Cost   | \$ 29,845,182         | \$ 19,674,371         |
| B. Nonfederal Cost  | 15,466,287            | 30,229,031            |
| C. Total Cost   | <u>\$ 45,311,469</u>  | <u>\$ 49,903,402</u>  |
| 2. Earned Revenue   |                       |                       |
| A. Intragovernmental Revenue  | \$ (332,313)          | \$ (427,904)          |
| B. Nonfederal Revenue   | (7,577,543)           | (884,081)             |
| C. Total Revenue  | <u>\$ (7,909,856)</u> | <u>\$ (1,311,985)</u> |
| 3. Losses/(Gains) from Actuarial Assumption<br>Changes for Military Retirement Benefits | \$ 0                  | \$ 0                  |
| Total Net Cost  | <u>\$ 37,401,613</u>  | <u>\$ 48,591,417</u>  |

**Research, Development, Test & Evaluation**

|   |                       |                       |
|---|-----------------------|-----------------------|
| 1. Gross Cost   |                       |                       |
| A. Intragovernmental Cost   | \$ 11,017,750         | \$ 10,214,672         |
| B. Nonfederal Cost  | 17,018,595            | 15,367,381            |
| C. Total Cost   | <u>\$ 28,036,345</u>  | <u>\$ 25,582,053</u>  |
| 2. Earned Revenue   |                       |                       |
| A. Intragovernmental Revenue  | \$ (3,006,323)        | \$ (2,895,100)        |
| B. Nonfederal Revenue   | (34,584)              | (36,563)              |
| C. Total Revenue  | <u>\$ (3,040,907)</u> | <u>\$ (2,931,663)</u> |
| 3. Losses/(Gains) from Actuarial Assumption<br>Changes for Military Retirement Benefits | \$ 0                  | \$ 0                  |
| Total Net Cost  | <u>\$ 24,995,438</u>  | <u>\$ 22,650,390</u>  |

**Family Housing & Military Construction**

|  |    |          |              |
|--|----|----------|--------------|
| 1. Gross Cost  |    |          |              |
| A. Intragovernmental Cost  | \$ | 71,597   | \$ 55,672    |
| B. Nonfederal Cost   |    | 390,171  | 1,909,306    |
| C. Total Cost  | \$ | 461,768  | \$ 1,964,978 |
| 2. Earned Revenue  |    |          |              |
| A. Intragovernmental Revenue   | \$ | (15,260) | \$ (750)     |
| B. Nonfederal Revenue  |    | (2,157)  | (6,777)      |
| C. Total Revenue   | \$ | (17,417) | \$ (7,527)   |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ | 0        | \$ 0         |
| Total Net Cost   | \$ | 444,351  | \$ 1,957,451 |

**Consolidated**

|  |    |              |                |
|--|----|--------------|----------------|
| 1. Gross Cost  |    |              |                |
| A. Intragovernmental Cost  | \$ | 33,317,514   | \$ 33,989,375  |
| B. Nonfederal Cost   |    | 134,392,483  | 133,239,512    |
| C. Total Cost  | \$ | 167,709,997  | \$ 167,228,887 |
| 2. Earned Revenue  |    |              |                |
| A. Intragovernmental Revenue   | \$ | (3,640,787)  | \$ (3,617,263) |
| B. Nonfederal Revenue  |    | (7,911,272)  | (1,223,733)    |
| C. Total Revenue   | \$ | (11,552,059) | \$ (4,840,996) |
| 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   | \$ | 156,157,938  | \$ 162,387,891 |

**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. Intradepartmental 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 2017, Operations, Readiness & Support reported an abnormal balance for Intragovernmental Cost in the amount of \$15.1 billion and Intragovernmental Revenue for \$241.2 million. \$3.5 billion in abnormal intragovernmental costs and \$161.4 million in intragovernmental revenue were also reported in FY 2016. Both abnormals are due to the eliminations process. Due to system and process limitations, the current business practice is to report most eliminations 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> |
|-----------------|--|

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

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$732.9 million.

| Year Ended September 30, 2017 (\$ in thousands)   |       |               |
|---|-------|---------------|
| Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position |       |               |
|   | Total |               |
| Appropriations, Statement of Budgetary Resources  | \$    | 170,303,268.2 |
| Appropriations Received, Statement of Changes in Net Position   | \$    | 171,036,241.7 |
| Total Reconciling Amount  | \$    | (732,973.5)   |
| Items Reported as Reductions to Appropriations, Statement of Budgetary Resources  |       |               |
| Permanent Reductions  | \$    | (1,425,996.1) |
| Items Reported as Additions to Appropriations, Statement of Budgetary Resources   |       |               |
| Transfers   | \$    | 683,766.6     |
| Items Not Reported as Appropriations Received on the Statement of Changes in Net Position   |       |               |
| Dedicated appropriations and earmarked receipts   | \$    | 9,256.0       |
| Total Reconciling Items   | \$    | (732,973.5)   |

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

| As of September 30<br>(Amounts in thousands)   | 2017           | 2016          |
|--|----------------|---------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 106,334,832 | \$ 94,706,209 |
| 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       | \$95.8 billion | \$76.4 billion | \$4.8 million |
| Reimbursable | \$4.9 billion  | \$4.0 billion  | \$ 0 million  |

**Intra-entity Transactions**

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

**Permanent Indefinite Appropriations**

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

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

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

**Appropriations Received**

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

The \$64.6 million on the Distributed Offsetting Receipts line is related to the amount of receipts collected for the receipt accounts is less than the fund balance with treasury account in the Air Force suspense accounts.

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

As of September 30

2017

2016

(Amounts in thousands)

**Resources Used to Finance Activities:**

Budgetary Resources Obligated:

|  |                       |                       |
|--|-----------------------|-----------------------|
| 1. Obligations incurred  | \$ 180,977,006        | \$ 172,781,434        |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (14,531,572)          | (14,298,960)          |
| 3. Obligations net of offsetting collections and recoveries                | <u>\$ 166,445,434</u> | <u>\$ 158,482,474</u> |
| 4. Less: Offsetting receipts (-)   | (64,658)              | 174,080               |
| 5. Net obligations   | <u>\$ 166,380,776</u> | <u>\$ 158,656,554</u> |

Other Resources:

|   |                       |                       |
|---|-----------------------|-----------------------|
| 6. Donations and forfeitures of property              | 0                     | 0                     |
| 7. Transfers in/out without reimbursement (+/-)       | (1,623,550)           | (230,597)             |
| 8. Imputed financing from costs absorbed by others    | 587,303               | 680,182               |
| 9. Other (+/-)  | 745,387               | (1,184,145)           |
| 10. Net other resources used to finance activities    | <u>\$ (290,860)</u>   | <u>\$ (734,560)</u>   |
| <b>11. Total resources used to finance activities</b> | <b>\$ 166,089,916</b> | <b>\$ 157,921,994</b> |

**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 (-)  | \$ (11,628,623)        | \$ (10,795,916)        |
| 12b. Unfilled Customer Orders  | 548,472                | 591,605                |
| 13. Resources that fund expenses recognized in prior periods (-)   | (35,869)               | (134,183)              |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations                | (46,431)               | (350,721)              |
| 15. Resources that finance the acquisition of assets (-)   | (18,851,469)           | (11,238,125)           |
| 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 (+/-)   | 845,281                | 1,443,456              |
| <b>17. Total resources used to finance items not part of the Net Cost of Operations</b>                    | <b>\$ (29,168,639)</b> | <b>\$ (20,483,884)</b> |
| <b>18. Total resources used to finance the Net Cost of Operations</b>                                      | <b>\$ 136,921,277</b>  | <b>\$ 137,438,110</b>  |

As of September 30

2017

2016

(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   | \$ | 57,660    | \$ | 9,182     |
| 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 (-)  |    | (27,736)  |    | 3,981     |
| 23. Other (+/-)  |    | 3,040,015 |    | 1,823,934 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | \$ | 3,069,939 | \$ | 1,837,097 |

Components not Requiring or Generating Resources:

|  |    |              |    |              |
|--|----|--------------|----|--------------|
| 25. Depreciation and amortization  | \$ | (22,902,664) | \$ | 10,692,570   |
| 26. Revaluation of assets or liabilities (+/-)   |    | 4,023,449    |    | 2,894,784    |
| 27. Other (+/-)  |    |              |    |              |
| 27a. Trust Fund Exchange Revenue   |    | 0            |    | 0            |
| 27b. Cost of Goods Sold  |    | 0            |    | 0            |
| 27c. Operating Material and Supplies Used  |    | 37,399,564   |    | 49,674,858   |
| 27d. Other   |    | (2,353,627)  |    | (40,149,528) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | \$ | 16,166,722   | \$ | 23,112,684   |

|   |    |            |    |            |
|---|----|------------|----|------------|
| <b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b> | \$ | 19,236,661 | \$ | 24,949,781 |
|---|----|------------|----|------------|

|                                   |    |             |    |             |
|-----------------------------------|----|-------------|----|-------------|
| <b>30. Net Cost of Operations</b> | \$ | 156,157,938 | \$ | 162,387,891 |
|-----------------------------------|----|-------------|----|-------------|



## 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 \$46.7 million in the Other Components Not Requiring or Generating Resources category.

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

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

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

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

Other Components of the Net Cost of Operations that will not Requiring 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.

Budgetary Offsetting Collections and Receipts that do not affect Net Cost of Operations is abnormal in the amount of \$46.4 million. This is contributed to the Deposit Account for Other Federal Payroll Withholding Allotments. In the 4th Quarter, FY 2016, the Air Force began moving various withholdings from clearing suspense accounts to deposit fund accounts. While this transition is in process, intransit collections are being reported in the deposit funds. The offsetting intransits are residing in the suspense accounts. This change in processes is creating an abnormal balance as suspense accounts are not mapped to these lines on Footnote 21.

In 2016, Depreciation and Amortization is showing an abnormal balance of \$10.7 billion due to adjustments made in several asset accountable property systems of record as a result of the FIAR Valuation effort to report asset balances more accurately.

## **Note 22. Disclosures Related to Incidental Custodial Collections**

The Air Force collected \$57.5 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.

|                 |   |
|-----------------|---|
| <b>Note 23.</b> | <b>Funds from Dedicated Collections</b> |
|-----------------|---|

| BALANCE SHEET<br>As of September 30                        | 2017                                |  |                  |                   |                       |
|--|-------------------------------------|--|------------------|-------------------|-----------------------|
|  | Harbor<br>Maintenance<br>Trust Fund | Rivers and<br>Harbors<br>Contributed and<br>Advance Fund | Other Funds      | Eliminations      | Consolidated<br>Total |
| <b>ASSETS</b>  |                                     |  |                  |                   |                       |
| Fund balance with<br>Treasury                              | \$ 0                                | \$ 0   | \$ 19,599        | \$ 0              | \$ 19,599             |
| Investments  | 0                                   | 0  | 355              | 0                 | 355                   |
| Accounts and Interest<br>Receivable                        | 0                                   | 0  | 0                | 0                 | 0                     |
| Other Assets   | 0                                   | 0  | 1,341            | 0                 | 1,341                 |
| Total Assets   | <u>\$ 0</u>                         | <u>\$ 0</u>  | <u>\$ 21,295</u> | <u>\$ 0</u>       | <u>\$ 21,295</u>      |
| <b>LIABILITIES and NET<br/>POSITION</b>                    |                                     |  |                  |                   |                       |
| Accounts Payable and<br>Other Liabilities                  | 0                                   | 0  | 99               | (39)              | 60                    |
| Total Liabilities  | <u>\$ 0</u>                         | <u>\$ 0</u>  | <u>\$ 99</u>     | <u>\$ (39)</u>    | <u>\$ 60</u>          |
| Unexpended<br>Appropriations                               | 0                                   | 0  | 0                | 0                 | 0                     |
| Cumulative Results of<br>Operations                        | 0                                   | 0  | 21,196           | 3,184             | 24,380                |
| Total Liabilities and<br>Net Position                      | <u>\$ 0</u>                         | <u>\$ 0</u>  | <u>\$ 21,295</u> | <u>\$ 3,145</u>   | <u>\$ 24,440</u>      |
| <b>STATEMENT OF NET<br/>COST</b>                           |                                     |  |                  |                   |                       |
| For the period ended<br>September 30                       |                                     |  |                  |                   |                       |
| Program Costs  | \$ 0                                | \$ 0   | \$ 6,006         | \$ (1,972)        | \$ 4,034              |
| Less Earned Revenue  | 0                                   | 0  | 0                | 0                 | 0                     |
| Net Program Costs  | <u>\$ 0</u>                         | <u>\$ 0</u>  | <u>\$ 6,006</u>  | <u>\$ (1,972)</u> | <u>\$ 4,034</u>       |
| Less Earned<br>Revenues Not<br>Attributable to<br>Programs | 0                                   | 0  | 0                | 0                 | 0                     |
| Net Cost of Operations                                     | <u>\$ 0</u>                         | <u>\$ 0</u>  | <u>\$ 6,006</u>  | <u>\$ (1,972)</u> | <u>\$ 4,034</u>       |

| STATEMENT OF<br>CHANGES IN NET<br>POSITION<br>For the period ended<br>September 30 | 2017                                |   |             |              |                       |
|--|-------------------------------------|---|-------------|--------------|-----------------------|
|  | Harbor<br>Maintenance<br>Trust Fund | Rivers and<br>Harbors<br>Contributed<br>and Advance<br>Fund | Other Funds | Eliminations | Consolidated<br>Total |
| Net Position Beginning<br>of the Period  | \$ 0                                | \$ 0  | \$ 19,190   | \$ 0         | 19,190                |
| Net Cost of Operations   | 0                                   | 0   | 6,006       | (1,972)      | 4,034                 |
| Budgetary Financing<br>Sources   | 0                                   | 0   | 6,065       | 0            | 6,065                 |
| Other Financing<br>Sources   | 0                                   | 0   | 1,947       | 1,212        | 3,159                 |
| Change in Net Position   | \$ 0                                | \$ 0  | \$ 2,006    | \$ 3,184     | 5,190                 |
| Net Position End of<br>Period  | \$ 0                                | \$ 0  | \$ 21,196   | \$ 3,184     | 24,380                |

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

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

**Relevant Information for Comprehension**

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

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

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

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

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

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

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

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

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

The \$252,300 abnormal balance in Accounts and Interest Receivable is due to a field reported transaction in the Air Force Cadet Fund which created undistributed collections and disbursements.

The \$2.4 million abnormal balance in Program Costs for 2017 is attributed to an increase in construction projects using funds earmarked for the Air Force General Gift Fund. The capitalization of construction in progress caused a higher than normal offset to Gift Fund program costs.

**Note 24. Fiduciary Activities**

**Schedule of Fiduciary Activity**

| For the period ended September 30                  | 2017      |              | 2016      |              |
|--|-----------|--------------|-----------|--------------|
| (Amounts in thousands)                             |           |              |           |              |
| 1. Fiduciary net assets, beginning of year         | \$        | 1,493        | \$        | 1,989        |
| 2. Fiduciary revenues                              |           | 0            |           | 0            |
| 3. Contributions                                   |           | 2,481        |           | 7,507        |
| 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 |           | (2,142)      |           | (8,003)      |
| 8. Increase/(Decrease) in fiduciary net assets     | \$        | 339          | \$        | (496)        |
| <b>9. Fiduciary net assets, end of period</b>      | <b>\$</b> | <b>1,832</b> | <b>\$</b> | <b>1,493</b> |

**Schedule of Fiduciary Net Assets**

| For the period ended September 30    | 2017      |              | 2016      |              |
|--------------------------------------|-----------|--------------|-----------|--------------|
| (Amounts in thousands)               |           |              |           |              |
| <b>FIDUCIARY ASSETS</b>              |           |              |           |              |
| 1. Cash and cash equivalents         | \$        | 1,833        | \$        | 1,493        |
| 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>\$</b> | <b>1,833</b> | <b>\$</b> | <b>1,493</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> |
|-----------------|--------------------------|

| As of September 30 | 2017<br>Asset Category |           |       |       |
|--------------------|------------------------|-----------|-------|-------|
|                    | Land & Buildings       | Equipment | Other | Total |

(Amounts in thousands)

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

## Future Payments Due

## Fiscal Year

|               |        |   |        |        |
|---------------|--------|---|--------|--------|
| 2018          | 17,493 | 0 | 15,074 | 32,567 |
| 2019          | 5,271  | 0 | 15,203 | 20,474 |
| 2020          | 3,292  | 0 | 15,400 | 18,692 |
| 2021          | 2,595  | 0 | 15,402 | 17,997 |
| 2022          | 1,546  | 0 | 15,701 | 17,247 |
| After 5 Years | 373    | 0 | 15,938 | 16,311 |

**Total Future Lease  
Payments Due**

|    |        |    |   |    |        |    |         |
|----|--------|----|---|----|--------|----|---------|
| \$ | 30,570 | \$ | 0 | \$ | 92,718 | \$ | 123,288 |
|----|--------|----|---|----|--------|----|---------|

**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> |
|-----------------|---------------------|

Not applicable for 2017.



**This Page Intentionally Left Blank**

# **General Fund**

Fiscal Year 2017

Required Supplementary  
Stewardship Information

## STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by Department of Defense 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 2017        | FY 2016        | FY 2015        | FY 2014        | FY 2013        |
| 1. Transferred Assets:                           |                |                |                |                |                |
| National Defense Mission Related                 | 0              | 0              | 0              | 0              | 0              |
| 2. Funded Assets:                                |                |                |                |                |                |
| National Defense Mission Related                 | \$ 15.5        | \$ 17.2        | \$ 13.9        | \$ 12.7        | \$ 12.3        |
| <b>Totals</b>                                    | <b>\$ 15.5</b> | <b>\$ 17.2</b> | <b>\$ 13.9</b> | <b>\$ 12.7</b> | <b>\$ 12.3</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.

| <b>INVESTMENTS IN RESEARCH AND DEVELOPMENT</b>                   |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Yearly Investment in Research and Development                    |          |          |          |          |          |
| For the Current and Four Preceding Fiscal Years                  |          |          |          |          |          |
| (\$ in millions)   |          |          |          |          |          |
| Categories   | FY2017   | FY2016   | FY2015   | FY2014   | FY2013   |
| 1. Basic Research  | \$521    | \$511    | \$473    | \$494    | \$494    |
| 2. Applied Research  | \$1,314  | \$1,124  | \$1,024  | \$1,120  | \$1,120  |
| 3. Development:  |          |          |          |          |          |
| Advanced Technology Development                                  | \$785    | \$624    | \$582    | \$598    | \$598    |
| Advanced Component Development<br>and Prototypes                 | \$2,831  | \$936    | \$1,105  | \$1,179  | \$1,179  |
| System Development and Demonstration                             | \$3,858  | \$4,382  | \$4,503  | \$2,783  | \$2,783  |
| Research, Development, Test and Evaluation<br>Management Support | \$1,691  | \$1,418  | \$1,114  | \$1,270  | \$1,270  |
| Operational Systems Development                                  | \$17,257 | \$14,864 | \$14,664 | \$14,913 | \$14,913 |
| 4. Totals  | \$28,257 | \$23,859 | \$23,467 | \$22,357 | \$22,357 |

## 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) made a breakthrough in visible-light metalenses – lenses that are thinner than a piece of paper, vastly lighter than glass, inexpensive, and are able to resolve nanoscale features of scale smaller than the wavelength of light. This breakthrough offers the potential for new capabilities ranging from wearable optics for virtual reality, flexible contact lenses, and light-weight space telescopes with greatly-decreased launch costs.

AFRL funded the development a new class of laser that combines the benefits of both fiber lasers and gas lasers. The Hollow-core Optical Fiber Gas Laser (HOFGLAS) is a gas-filled fiber optic laser that has the potential to scale to militarily-relevant power levels for ISR, directed energy weapons, and chemical detection with all the benefits of solid-core fiber lasers.

#### **Applied Research:**

AFRL conducted the Hypersonic International Flight Research Experimentation (HIFiRE) mission launch from the Woomera Test Range with its strategic partner Australia. The booster and free flight phases phase on the flight was 100% successful. During free flight, 100% of primary objectives and most of the secondary objectives were accomplished. The flight test secured data critical to the validation of computational models and numerical simulations performed over the past four years of development and ground test.

AFRL successfully demonstrated the Roll-out Solar Array (ROSA). ROSA is a tensioned solar cell blanket that passively deploys using stored strain energy in bi-stable, graphite composite structural booms. The solar array blanket & structural booms roll-up in a compactly stowed package for launch. The mission was a multi-agency, multi-commercial collaboration yielded outstanding success. ROSA provides a 6x better stowed volume (20% mass savings), 4x improvement to wing stiffness versus traditional rigid panel arrays, and can be retracted and redeployed on-orbit to support resiliency.

## **Advanced Technology Development:**

Dismounted operators (Pararescue Jumpers and Guardian Angels) require greater situational awareness (SA) and an integrated tactical ensemble to accomplish their mission. Power/data cable hazards and lack of ability to monitor multiple patients simultaneously have caused operational challenges. AFRL's Advanced Technologies for Battlefield Airmen program (BATMAN) has developed a multi-patient medical observation system, the Battlefield Airmen Distributed Observation Kit (BATDOK) and a personal area optical data connection to link head-worn devices with body-worn devices such as headsets, HMDs, tablets, and radios eliminating cabling and look-down hazards.

AFRL's Adaptive Engine Technology Development (AETD) effort had two very successful engine tests. AETD aims at maturing adaptive engine technologies with substantial fuel efficiency & thrust enhancements and accelerate transition to Air Force to current and future combat aircraft. General Electric successfully completed 113 hours on an all new centerline adaptive core achieving all test objectives. Pratt and Whitney has completed 140 hours of altitude testing of their adaptive fan test, driven by an F-25 power plant achieving all test objectives.

AFRL's Low Cost Attributable Affordable Aircraft Technology (LCAAT) effort aircraft concept was used in the Red Flag 17-1 red/blue simulation. LCAAT provided additional weapons capability in the combat environment as a force multiplier for manned aircraft. LCAAT employment in the game reduced personnel recovery events, increased manned aircraft standoff distance, enhanced aircraft survivability, particularly in SEAD/OCA mission. LCAAT was invited back to the FY 2018 Red Flag

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

Technology Transition (This is a new BA 4 addition)

Efforts under Technology Transition include the Air Force Experimentation and Prototyping. The Air Force Experimentation FY 2017 accomplishments include conducting the Light Attack experiment to assess the capabilities of off-the-shelf attack aircraft to explore new operational concepts and candidate capabilities which can be rapidly and affordably fielded. Air Force crews flew suitable Industry aircraft in scenarios designed to highlight aspects of various combat missions, such as close air support, armed reconnaissance, combat search and rescue, and strike control and reconnaissance, including employment of weapons.

The Air Force Prototyping FY 2017 accomplishments include successful testing demonstrations under the Adaptive Engine Transition Program (AETP). During FY17, the AETP began initial component testing, made significant progress in detailed design and initiated next generation suitability study efforts. In addition, AETP successfully tested a full-sized Ox-Ox Exhaust Liner for durability over 12 hours of continuous runtime and 2 hours of afterburner time. The Ox-Ox liner is one example of new light weight and high temperature tolerant materials being used for the first time in a fighter turbine engine under the auspices of AETP.

B-2 AEHF Strategic Communications

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

assessments, and other pre-Engineering and Manufacturing Development (Pre-EMD) activities associated with satisfying B-2 communications requirements using extremely high frequency and other waveforms. The program plans to award a Technology Maturation and Risk Reduction TMRR contract in the 3rd Quarter, FY 2017 after Milestone A approval.

#### Long Range Stand Off (LRSO) Weapon

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

- On 29 Jul 2016, USD (AT&L) signed the LRSO Milestone A Acquisition Decision Memorandum (ADM) granting the LRSO program authority to enter the Technology Maturation and Risk Reduction (TMRR) phase.
- On 29 July 16, the LRSO program office released the formal TMRR request for proposals to industry.
- Prepared for TMRR source selection with expanded staff as well as facilities and security infrastructure upgrades.
- Continued to develop and implement secure communications between Department of Defense and Department of Energy to support interagency warhead life extension program.

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

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

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

MGUE Increment 1 is in the Engineering and Manufacturing 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. OUSD (AT&L) approved a commercial market driven acquisition strategy for Increment 1 that enables the program to go directly from Technology Development and Milestone B approval

into production. Lead Platform integration is currently underway. Final test articles have been received by the Government from all three MGUE vendors. All four Lead Platform Support Agreements are complete.

### Space Security and Defense Program

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

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

### Ground Based Strategic Deterrent (GBSD)

The Ground Based Strategic Deterrent (GBSD) acquisition program is a recapitalization for the Minuteman III (MMIII) Intercontinental Ballistic Missile (ICBM) Weapon System (WS). This includes a new missile system, new WS Command and Control (WSC2) systems, new ground systems, and the restoration and modernization of the MMIII silos and Launch Control Centers (LCCs). Specific FY 2017 accomplishments include:

- On 21 Aug 2017, the Air Force awarded two TMRR contracts. Contracts were awarded to the Boeing Company in Huntsville, Alabama, and Northrop Grumman Systems Corporation in Redondo Beach, California.
- In FY 2017, the program examined and matured flight system, weapon system command and control, cybersecurity, and associated ground system technologies, defined requirements and modular architectures through trade studies, prototyping, and demonstration and analysis.



## System Development and Demonstration:

### KC-46

The KC-46 is the next generation Aerial Refueling Tanker and will replace approximately one third of the aging Legacy Tanker fleet. The aircraft is a militarized commercial derivative of the Boeing 767-200. The KC-46 will provide aerial refueling support to the Air Force, Navy, and Marine Corps as well as allied nation coalition force aircraft, plus increased capabilities for cargo and aeromedical evacuation. Significant FY 2017 accomplishments include:

- **Engineering & Manufacturing Design (EMD) Aircraft:** All four EMD aircraft will continue testing in support of FAA and military type certification, specification verification, and developmental test completion report closure. The Program is also using two LRIP aircraft to support testing.
- **Low Rate Initial Production (LRIP):** Awarded LRIP lot 3 (15 aircraft) in January of 2017
- **Testing:** Completed several key testing milestones including, Electro-Magnetic Effects, High Intensity Radiated Fields, Hot-day, and Amended Type Certification testing.

### 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 operational communications management system. Mission Planning Element (MPE) Increment 7.6 was delivered to the government in June 2015 and Operational Acceptance was achieved in January 2016. The follow-on increment (MPE Increment 8.0) was awarded to Lockheed Martin on 1 July 2015 to resolve remaining deficiencies, integrate Family of Advanced Beyond-line-of-sight Terminals (FAB-T) and Global Assent terminals, and increase system capacity. MPE Increment 8.1, awarded to Lockheed Martin in July 2016, will deliver faster tactical planning and improved international partner communications planning.

### Space Based Infrared System (SBIRS)

The Space Based Infrared System (SBIRS) is an integrated, incrementally-deployed system of satellites that provides initial warning of ballistic missile attack on the U.S., its deployed forces, or its allies. SBIRS supports the missile warning, missile defense,

battlespace awareness, and technical intelligence mission areas. It is a more-capable successor to the Defense Support Program (DSP).

GEO-1 and GEO-2 satellites were accepted for missile warning operations in November 2013, joining the previously certified HEO-1 and -2 payloads as part of the SBIRS constellation, providing greater capabilities than legacy systems. The HEO-3 payload is now on orbit while HEO-4 payload completed production and was delivered to the host satellite for integration in May 2015. GEO-3 satellite completed production in July 2015 and was delivered into storage. GEO satellites 5 and 6 continue in production. The SBIRS GEO-4 satellite, usually referred to as GEO Flight-3, was successfully launched in January 2017.

Operational acceptance of the Block 10 ground system consolidated legacy Defense Support Program (DSP), SBIRS HEO, and SBIRS GEO satellite ground systems from three locations into one primary location and a backup. The primary operations location is the Mission Control System-2 (MCS-2) at Buckley AFB, CO, and the secondary operations location is the Mission Control System Backup-2 (MCSB-2) at Schriever AFB, CO. The consolidation provides a significant reduction in manpower requirements and allows for improvements in mission processing capabilities. Operational Acceptance of the Block 10 ground system occurred in December 2016.

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

## Space Fence

Space Fence is a system of ground-based sensors to improve upon the former Air Force Space Surveillance System, a Very High Frequency radar operational from 1961 to 2013. The Space Fence will provide a more accurate and timely detection capability of smaller orbiting objects, primarily in low-earth orbit. The system will use higher frequency S-band radars at globally dispersed sites. As a result, it will greatly expand the uncued detection and tracking capability of the Space Surveillance Network from around 20,000 to up to 100,000+ objects, while working in concert with other network sensors. Increment 1/Initial Operational Capability (IOC) will consist of successful operations at the first radar site located in the Kwajalein Atoll and the Space Fence Operations Center (SOC) at Huntsville, AL. Ground breaking took place on Kwajalein Atoll in February 2015 and construction is underway, with IOC currently planned for late 3QFY19. Increment 2 will include completion of the second OCONUS radar, pending funding determinations and negotiations with the proposed host nation.

## B-2 Defensive Management System

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

## B61-12 Tailkit Assembly

The B61-12 Life Extension Program (LEP) is a joint Department of Defense and Department of Energy (DOE) modernization program for a portion of the Nation’s airborne leg of the nuclear triad. The B61-12 LEP consolidates four legacy B61 variants (mods 3,4,7 & 10) into one variant (mod 12), provides a digital weapon interface, and maintains current weapon capability by adding a guided tailkit. Under the joint effort, the DoD, through the Air Force Nuclear Weapons Center, is responsible for the B61-12 Tailkit Assembly (TKA) development, All-Up-Round (AUR) integration, and aircraft integration. The DOE, through the National Nuclear Security Administration, is responsible for the B61-12 Bomb Assembly (BA). The Bomb Assembly (BA) design agencies are Sandia and Los Alamos National Laboratories, and the TKA is developed by The Boeing Corporation.

The B61-12 TKA program entered the EMD phase after a successful Milestone B decision on 19 Nov 2012. The program started development testing in August 2017, and is on track for a Milestone C decision in October 2018.

The B61-12 is slated to become the only nuclear gravity weapon in the U.S. arsenal as outlined in the Nuclear Weapons Council 3+2 strategy.

## Combat Rescue Helicopter

The Combat Rescue Helicopter (CRH) will replace the aging HH-60G helicopter. The CRH will provide Personnel Recovery (PR) forces with a vertical takeoff and landing aircraft that is quickly deployable and capable of main base and austere location operations for worldwide PR missions.

The CRH will be capable of employment day or night, in adverse weather, and in a variety of threat spectrums from terrorist attacks to chemical, biological, radiological, and nuclear threats. The CRH can also conduct other collateral missions inherent in their capabilities to conduct PR, such as non-conventional assisted recovery, national emergency operations, civil search and rescue, international aid, emergency aero medical evacuation, disaster and humanitarian relief, counter drug activities, support of National Aeronautics and Space Administration flight operations, and insertion/extraction of combat forces.

Sikorsky Aircraft Corporation is meeting the 69-month schedule incentive and is on track to deliver 112 aircraft designated as the HH-60W.

Significant FY 2017 accomplishments include:

- **Engineering & Manufacturing Development (EMD) Aircraft:** EMD aircraft started assembly in July 2017. First flight is scheduled to occur in FY 2018, followed by first delivery in FY 2019.
- **System Demonstration Test Articles (SDTA) Aircraft:** Five SDTA aircraft were ordered on January 2017.

**Program Events:** The Air Vehicle Critical Design Review (CDR) was completed in May 2017, three months earlier than planned. The Training Systems CDR was completed in September 2017. The CDRs showed that all Key Performance Parameters and Key System Attributes were being met, as well as maturity of the design and the ability to proceed with full-scale fabrication, assembly, integration, and test.

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

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

The SBIR/STTR FY17 accomplishments include the development of an algorithm to aggregate signals of opportunity from various radio frequency sources and provide a complementary, backup source of positioning, navigation and timing. The algorithm is used to determine a position based on the time difference of arrival of those signals, which do not operate on the same frequency as GPS, offering a counter to GPS jamming threats. Echo Ridge, LLC and the AFRL Sensors Directorate recently completed a field test of a prototype of the device at Fort Bragg, North Carolina.

Spawned by a continued small business collaboration in FY17, the Air Force and aerospace industry now have a more environmentally-friendly and lower-cost option to protect a key aircraft system. With support from the Air Force's SBIR/STTR program, Utah-based ES3 developed a process for plating steel aircraft landing gear components with Low Hydrogen Embrittlement Zinc-Nickel. Along the way, ES3 worked closely with a unit of prime contractor Boeing, as well as coating manufacturer Dipsol of America, to make the technology a reality. An LHE Zinc-Nickel plating line has been installed at Hill Air Force Base, where the 309th Commodities Maintenance Group is using the new method to overhaul an increasing number of landing gear components. Early financial assessments projected the new line would yield a multi-million dollar savings on hazardous waste disposal.

The Air Force is taking aim at its multi-billion dollar aircraft corrosion challenges through a partnership with a Virginia-based small business. Luna Innovations Inc., with support from the SBIR/STTR Program, developed technology that improves upon the laboratory evaluation of aerospace coatings and provides service-life estimates for coatings in actual environments. Having a better way to measure the effectiveness of coatings that protect aircraft structures from corrosion and environmentally-produced cracks will allow the Air Force to accelerate the adoption of new coatings while reducing the risk associated with their integration.

The Development Planning FY 2017 accomplishments include conducting the Multi-Domain Command and Control (MDC2) Enterprise Capability Collaboration Team (ECCT). The MDC2 ECCT formed an Air Force enterprise-wide multidisciplinary team that conducted a gap analysis on the MDC2 mission effects framework and developed a campaign plan to organize the effort the Air Force needs to accomplish to develop the operational concepts, enabling technologies, and support structures to effectively command and control forces in the future.

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 704th Test Group (TG) at Holloman AFB NM. The 704<sup>th</sup> TG is the new designation of the 96<sup>th</sup> TG and now falls organizationally under AEDC.

In FY 2017 Developmental T&E (DT&E) continued to fully support F-35, KC-46, SDB II, F-22 and all legacy modernization programs. Following an increase in FY16, USAF Test Pilot School production was again increased to address projected shortfalls in trained test personnel. New funding and manpower earmarked for Cyber was utilized to expand the Cyber Test Group at Eglin AFB. F-15 modernization programs continued to experience test program delays due to insufficient test aircraft availability and funding. Two loaner aircraft were provided but late arrival and the aircraft modification time needed to instrument for test made them unavailable for most of the year. An additional authorization for one of two aircraft requested by AFMC in the FY 2019 POM was granted for FY 2020. The aircraft arriving in FY 2020 is an F-15E and will improve test capacity for F-15 modernization; at least one more F-15C is required to support existing programs. In addition, necessary test infrastructure improvements to support F-15 security requirements represent a significant disconnect. Minimal AFTC and F-15 program funds have been used to address the shortfall but they are insufficient to solve the problem.

Flying hour funding for one B-1 was secured, but a second will leave service in FY 2019, cutting capacity by 50%. B-52 test capacity requirements are expected to lag capacity and allocations starting in FY18, with the future of the B-52 test fleet depending on program funds and aircraft loans. Civilian Pay for FY 2017 was predicted to be short by \$6.6M, a ~\$4M shortfall was realized. It was fixed by sourcing funds from reduced travel, training, equipment purchases, spare parts and Depot Level Repairables, deferred instrumentation and diagnostic upgrades and maintenance. Major efforts began at all three locations to recapitalize aging test infrastructure by restoring and modernizing major components and systems at all three test bases.

Work began on three service life extension projects at Arnold Engineering Development Complex on wind tunnel and engine test capabilities. The Benefield Anechoic Facility at Edwards AFB began work on restoring and modernizing the deteriorated anechoic surface material and McKinley Climatic Lab started work to modernize its heat lamp and small test cell capabilities. Despite these efforts, three significant mishaps were experienced by three major test facilities within AEDC, including the Engine Test Facility, McKinley Climatic Lab and National Full-Scale Aerodynamic Complex. All three mishaps were classed as Class A due to the estimated cost to repair the damage to the systems. Near-term fixes will allow both facilities to operate at less than full capability, with studies initiated to define concepts for restoring full capability beginning in FY 2018.

In 2017 for the Electronic Warfare area, the 96 TW continued development of hardware and software upgrades to its 5-axis IR threat simulator capabilities at the Guided Weapons Evaluation Facility. The 412 TW continued to develop and validate architecture and simulation upgrades, including improvements to command and control, sensor reactivity, and jamming models at of the Digital Integrated Air Defense System environment simulator. The 412<sup>th</sup> also continued development, procurement and integration of new state-of-the-art stimulators and threat signal generation capabilities for the Advanced Warfare Test and Evaluation Capability at the BAF. AEDC's 704<sup>th</sup> TG continued facility upgrades to consolidate and enhance operations efficiency and improve RCS measurement accuracy of Low Observable platforms and antennas, including design studies of next generation radar and RCS metrology requirements. Under the general test infrastructure improvement and modernization area, the 412TW continued the Common Range Integrated Instrumentation System production Lot 1 procurement and fielding of increment 2 pods, aircraft internal mounts and ground test support infrastructure.

The Common Airborne Networked Instrumentation System (CANIS) project continued supporting and complementing the iNET Program by implementing the airborne solutions. FY17 activity included completing the implementation of spirals 0, 1, and 2 of the CANIS acquisition approach. Spiral 0 modifies telemetry policies and procedures and makes use of tier 1 waveforms; Spiral 1 implements multi-band and C-Band transmitter and transceiver conversions; and Spiral 2 establishes a test asset networked data gathering package. The Modular Mission Control Room Upgrade continued to support the hardware integration (spiral 1), situational awareness integration (spiral 2), and applications migration of the MMCRU implementation. Finally, the Voice Communication System Upgrade program completed requirements definition and took receipt of initial test lab equipment.

The 96 TW completed work on the Combined High Speed High Resolution Electro-Optical/IR Imaging system implementation to use on their B-70 and C-72 range complexes; the effort completes implementation of autonomous designs to acquire and modernize mobile optical tracking systems; complete evaluation of ultra-high speed camera options for hypersonic speed tests on the Holloman High-Speed Test Track. Next Generation Munitions Test Environment continued upgrading aging gun and munitions test infrastructure, developed and procured common data instrumentation and acquisition systems, and replaced environmental test chambers/facilities supporting gun and arena test capabilities. The Cyber Defense Test Capability project completed the study to develop a detailed implementation methodology for the DoD cybersecurity T&E process, identified manpower requirements and developed a test investment roadmap. The Improved C2 Test Operations Center project continued C4ISR test network upgrades to C4ISR system hardware and software, and replaced outdated network infrastructure.

AEDC completed work on its Mid-Pressure Arc Heaters, the Advanced Large Military Engine Capability and Test Instrumentation Data Systems and Control systems. They continued work on the Improved Transonic Test Capability and Improved Plant Reliability and Efficiency/Transonic Aero Test Capability where they are restoring the capabilities of the main drive motors (rewind main drive motors M1 and M4), C1 compressor (replace both C1 compressor rotor blades and spacers), main drive motor sub-systems (refurbish/replace), C1 compressor sub-systems (refurbish/replace), and the electrical support systems (refurbish/replace primary Propulsion Wind Tunnel (PWT) facility main drive electrical utilities) to original specifications. They also continued upgrades on the Next Generation Turbine Engine Test Capability exhaust coolers, compressor in-bleed segments and power and thermal management systems. The 704TG explored Land Gear Test Facility modernization program options to begin contract actions. Finally, the Holloman High Speed Test Track Gantry Crane

project is nearing completion, delivery and integration of the new gantry crane, expected to be done in FY18.

### **Operational System Development:**

#### **Minuteman III (MM III)**

The Air Force has increased investment in the MM III weapon system ensuring its safe, secure and reliable operation until replacement by the GBSD. These efforts span 450 missile launch facilities and missiles, 45 launch control centers, and flight test, training and support equipment. The MM III weapon system has been in operation since the 1970's as a critical, ground-based leg of the U.S. nuclear triad. The most significant development effort is replacement of the Mk21/W87 warhead fuze in cooperation with similar Navy fuze development efforts employing Sandia National Laboratories as the design agent. The W87 replacement fuze will be available in 2022 on MM III and see use in GBSD as well.

In 2017, new development efforts were initiated to upgrade mission equipment used by missile crews in underground launch control centers, and replacement/upgrade of other training, ground test and depot level maintenance equipment. Efforts are ongoing to further improve launch and crypto code security and handling and replace outdated field-level reentry system maintenance equipment, payload and missile booster transportation tractor/trailer vehicles, missile launch facility monitoring and security equipment and power distribution and backup systems. Replacement and upgrade equipment will be fielded in the 2017-2020 timeframe and be in service through transition to GBSD. All MM III equipment will be assessed for continued use in supporting GBSD.

#### **Small Diameter Bomb II**

Shrinking force structure, increased tasking, evolving threats, and collateral damage avoidance will drive a demand for a precision strike capability with a mission planned datalink equipped weapon. Small Diameter Bomb (SDB) II will provide strike aircraft with a capability to attack stationary and mobile targets through the weather with standoff capability while retaining miniature munition type weapon attributes (effective day/night, adverse weather, increased load-out, focused logistics, etc.) plus the capability to attack a range of stationary targets across the combat arena. Testing during EMD is structured in a phased Test and Evaluation (T&E) approach with Phase I supporting verification of Normal Attack, Coordinate Attack, and Laser Illuminated Attack modes on the F-15E. Phase II supports integration of the full SDB II capability on the F-35B and F-35C. Operational testing will commence in 2017. The Low Rate Initial Production (LRIP) contract was awarded in June 2015, and three contract options have been exercised to date: a 144-weapon Lot 1 production contract option in June 2015, a 250-weapon Lot 2 production contract option in Sep 2016 and a 312-weapon Lot 3 production contract option in Jan 2017. Production will continue through FY25.

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

AMRAAM is a radar-guided, air-to-air missile with capability in both the beyond visual-range and within visual-range arenas. The latest AMRAAM variant, the AIM-120D, delivers improved performance via Global Positioning System (GPS)-aided navigation, a two-way datalink capability for enhanced aircrew survivability and improved network compatibility, and incorporates new guidance software which improves kinematic performance and weapon effectiveness. The Air Force and Navy completed FOT&E of the AIM-120D Advanced Medium-

Range Air-to-Air Missile (AMRAAM) in July 2014 and fielded the system in January 2015. Both services continue to develop AMRAAM improvements to counter existing and emerging air vehicle threats operating at high or low altitude, and having advanced Electronic Attack (EA) capabilities. The development program also enables AMRAAM compatibility with advanced fighters, enhances AMRAAM capability and operational flexibility against current and projected threats, incorporates high payoff technology development, performs risk reduction activities, and investigates new variants and/or alternate missions which may use AMRAAM attributes. To keep the existing inventory as effective as possible, the Air Force and Navy also develop, test, and field improvements that are implemented via software upgrades reprogrammed into fielded AMRAAMs, and/or hardware upgrades inserted into production units.

#### Airborne Warning and Control System (AWACS)

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

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

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

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



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

#### Joint Air-to-Surface Standoff Missile – Extended Range

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

#### Joint Space Operations Center Mission Systems

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

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

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

#### F-22 Raptor Program

The Air Force's Operational System Development efforts include projects that support upgrades for the F-22 Raptor. 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 3.2B, Operational Flight Program (OFP) Update 6, the Mandates programs (Tactical Data Link, Mode-5 and ADS-B Out) and the integration of a Helmet Mounted Cueing System (HMCS). 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 3.2B builds on previous lethality increments and adds the AIM-9X, AIM-120D missiles and improved geo-location and Intra-flight Data Link capabilities. In addition, the software only programming activity Update 6 modifies the F-22's OFP to meet future NSA crypto requirements and enhances its Link 16 interoperability functionality. The F-22's tactical mandates programs will deliver Mode 5 Identification, Friend or Foe Transmit and Interrogate as well as Link 16 transmit and ADS-B Out capabilities. Finally, FY17 included initial analysis and risk mitigation efforts for the integration of a HMCS which will be used to improved battlespace situation awareness and enhance weapons cueing.

# **General Fund**

Fiscal Year 2017

Required Supplementary Information

**Department of Defense**  
**Department of the Air Force**  
**STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|  | Research, Development,<br>Test & Evaluation | Procurement       | Military Personnel |
|--|---|-------------------|--------------------|
| <b>BUDGETARY RESOURCES:</b>  |   |                   |                    |
| <b>Budgetary Resources:</b>  |   |                   |                    |
| Unobligated balance brought forward, Oct. 1  | \$ 4,911,836                                | 21,170,076        | 1,223,507          |
| Unobligated balance brought forward, Oct. 1,<br>as adjusted  | 4,911,836                                   | 21,170,076        | 1,223,507          |
| Recoveries of unpaid prior year obligations  | 654,896                                     | 1,595,767         | 199,436            |
| Other changes in unobligated balance (+ or -)  | (91,366)                                    | (1,046,376)       | (517,525)          |
| Unobligated balance from prior year budget authority, net  | 5,475,366                                   | 21,719,467        | 905,418            |
| Appropriations (discretionary and mandatory)   | 27,848,085                                  | 45,707,881        | 35,485,304         |
| Spending Authority from offsetting collections<br>(discretionary and mandatory)                        | 3,456,914                                   | 417,519           | 530,561            |
| Total Budgetary Resources  | <u>\$ 36,780,365</u>                        | <u>67,844,867</u> | <u>36,921,283</u>  |
| <b>Status of Budgetary Resources:</b>  |   |                   |                    |
| New obligations and upward adjustments (total)   | 30,392,619                                  | 48,483,085        | 35,861,074         |
| Unobligated balance, end of year   |   |                   |                    |
| Apportioned  | 5,989,409                                   | 18,001,768        | 226,635            |
| Exempt from apportionment, unexpired accounts  | 0   | 0                 | 0                  |
| Unapportioned, unexpired accounts  | 0   | 0                 | 0                  |
| Unexpired unobligated balance, end of year   | 5,989,409                                   | 18,001,768        | 226,635            |
| Expired unobligated balance, end of year   | 398,337                                     | 1,360,014         | 833,574            |
| Unobligated balance, end of the year (total)   | <u>6,387,746</u>                            | <u>19,361,782</u> | <u>1,060,209</u>   |
| Total Budgetary Resources  | <u>\$ 36,780,365</u>                        | <u>67,844,867</u> | <u>36,921,283</u>  |
| <b>Change in Obligated Balance:</b>  |   |                   |                    |
| <b>Unpaid obligations:</b>   |   |                   |                    |
| Unpaid obligations, brought forward, October 1   | 14,215,224                                  | 37,220,944        | 2,059,955          |
| New obligations and upward adjustments   | 30,392,619                                  | 48,483,085        | 35,861,074         |
| Outlays (gross) (-)  | (28,314,959)                                | (41,340,809)      | (35,416,947)       |
| Recoveries of prior year unpaid obligations (-)  | (654,896)                                   | (1,595,767)       | (199,436)          |
| Unpaid Obligations, end of year  | <u>15,637,988</u>                           | <u>42,767,452</u> | <u>2,304,646</u>   |
| <b>Uncollected payments:</b>   |   |                   |                    |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-)   | (891,552)                                   | (85,595)          | (185,455)          |
| Change in uncollected pymts, Fed sources (+ or -)  | (187,140)                                   | 21,237            | (6,349)            |
| Uncollected pymts, Fed sources, end of year (-)  | <u>(1,078,692)</u>                          | <u>(64,358)</u>   | <u>(191,804)</u>   |
| Obligated balance, start of year (+ or -)  | <u>13,323,672</u>                           | <u>37,135,349</u> | <u>1,874,500</u>   |
| Obligated balance, end of year (+ or -)  | <u>\$ 14,559,296</u>                        | <u>42,703,094</u> | <u>2,112,842</u>   |
| <b>Budget Authority and Outlays, Net:</b>  |   |                   |                    |
| Budget authority, gross (discretionary and mandatory)  | 31,304,999                                  | 46,125,400        | 36,015,865         |
| Actual offering collections (discretionary and mandatory) (-)  | (3,375,913)                                 | (881,228)         | (575,005)          |
| Change in uncollected customer payments from Federal<br>Sources (discretionary and mandatory) (+ or -) | (187,140)                                   | 21,237            | (6,349)            |
| Recoveries of prior year paid obligations<br>(discretionary and mandatory)                             | 106,139                                     | 442,471           | 50,792             |
| Budget Authority, net (discretionary and mandatory)  | <u>\$ 27,848,085</u>                        | <u>45,707,880</u> | <u>35,485,303</u>  |
| Outlays, gross (discretionary and mandatory)   | 28,314,959                                  | 41,340,809        | 35,416,947         |
| Actual offsetting collections (discretionary and mandatory) (-)  | (3,375,913)                                 | (881,228)         | (575,005)          |
| Outlays, net (discretionary and mandatory)   | 24,939,046                                  | 40,459,581        | 34,841,942         |
| Distributed offsetting receipts (-)  | 0   | 0                 | 0                  |
| Agency Outlays, net (discretionary and mandatory)  | <u>\$ 24,939,046</u>                        | <u>40,459,581</u> | <u>34,841,942</u>  |

| Family Housing & Military<br>Construction | Operations, Readiness &<br>Support | 2017 Combined      | 2016 Combined      |
|---|------------------------------------|--------------------|--------------------|
| 2,449,088                                 | 3,591,330                          | 33,345,837         | 31,546,107         |
| 2,449,088                                 | 3,591,330                          | 33,345,837         | 31,546,107         |
| 22,684                                    | 2,764,824                          | 5,237,607          | 4,732,874          |
| (237,798)                                 | (1,014,137)                        | (2,907,202)        | (1,171,214)        |
| 2,233,974                                 | 5,342,017                          | 35,676,242         | 35,107,767         |
| 2,197,648                                 | 59,064,350                         | 170,303,268        | 162,421,176        |
| 0   | 3,992,447                          | 8,397,441          | 8,598,331          |
| <u>\$ 4,431,622</u>                       | <u>68,398,814</u>                  | <u>214,376,951</u> | <u>206,127,274</u> |
| 1,468,063                                 | 64,772,166                         | 180,977,007        | 172,781,434        |
| 2,779,665                                 | 228,857                            | 27,226,334         | 26,589,446         |
| 0   | 13,203                             | 13,203             | 12,165             |
| 0   | 3,159                              | 3,159              | 414                |
| 2,779,665                                 | 245,219                            | 27,242,696         | 26,602,025         |
| <u>183,893</u>                            | <u>3,381,430</u>                   | <u>6,157,248</u>   | <u>6,743,810</u>   |
| <u>2,963,558</u>                          | <u>3,626,649</u>                   | <u>33,399,944</u>  | <u>33,345,835</u>  |
| <u>\$ 4,431,621</u>                       | <u>68,398,815</u>                  | <u>214,376,951</u> | <u>206,127,269</u> |
| 1,607,492                                 | 28,954,346                         | 84,057,961         | 75,741,009         |
| 1,468,063                                 | 64,772,166                         | 180,977,007        | 172,781,434        |
| (895,027)                                 | (59,787,509)                       | (165,755,251)      | (159,731,611)      |
| <u>(22,684)</u>                           | <u>(2,764,824)</u>                 | <u>(5,237,607)</u> | <u>(4,732,874)</u> |
| 2,157,844                                 | 31,174,179                         | 94,042,109         | 84,057,961         |
| (10,050)                                  | (1,191,793)                        | (2,364,445)        | (2,218,231)        |
| 10,000                                    | (54,613)                           | (216,865)          | (146,215)          |
| <u>(50)</u>                               | <u>(1,246,407)</u>                 | <u>(2,581,311)</u> | <u>(2,364,445)</u> |
| <u>1,597,442</u>                          | <u>27,762,553</u>                  | <u>81,693,516</u>  | <u>73,522,778</u>  |
| <u>\$ 2,157,794</u>                       | <u>29,927,772</u>                  | <u>91,460,798</u>  | <u>81,693,516</u>  |
| 2,197,648                                 | 63,056,797                         | 178,700,709        | 171,019,507        |
| (13,383)                                  | (4,231,573)                        | (9,077,102)        | (9,419,872)        |
| 10,000                                    | (54,613)                           | (216,865)          | (146,215)          |
| <u>3,383</u>                              | <u>293,739</u>                     | <u>896,524</u>     | <u>967,754</u>     |
| <u>\$ 2,197,648</u>                       | <u>59,064,350</u>                  | <u>170,303,266</u> | <u>162,421,174</u> |
| 895,027                                   | 59,787,509                         | 165,755,251        | 159,731,611        |
| (13,383)                                  | (4,231,573)                        | (9,077,102)        | (9,419,872)        |
| 881,644                                   | 55,555,936                         | 156,678,149        | 150,311,739        |
| 0   | (64,658)                           | (64,658)           | 174,080            |
| <u>\$ 881,644</u>                         | <u>55,491,278</u>                  | <u>156,613,491</u> | <u>150,485,819</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&amp;E)

| <b>HERITAGE ASSETS</b>                                    |                             |                      |                  |                  |                      |
|---|-----------------------------|----------------------|------------------|------------------|----------------------|
| <b>For Fiscal Year Ended September 30, 2017</b>           |                             |                      |                  |                  |                      |
| <b>Heritage Asset Categories</b>                          | <b>Measurement Quantity</b> | <b>As of 9/30/16</b> | <b>Additions</b> | <b>Deletions</b> | <b>As of 9/30/17</b> |
| Buildings and Structures                                  | Each                        | 5,123                | 38               | 151              | 5,010                |
| Archaeological Sites                                      | Sites                       | 1,835                | 51               | 160              | 1,886                |
| Museum Collection Items (Objects, Not Including Fine Art) | Each                        | 135,615              | 306              | 444              | 135,477              |
| Museum Collection Items (Fine Art)                        | Each                        | 15,087               | 21               | 2                | 15,106               |

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

## 1. Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These facilities are maintained in accordance with the National Historic Preservation Act (NHPA), and “The Secretary of Interior’s Standards for The Treatment of Historic Properties” by each base’s civil engineering group, as part of their overall responsibility. The Air Force reported 5,123 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2016. The number of buildings/structures considered Heritage Assets at EOY FY 2017 is 5,010, a total reduction of 113. The total reflects 38 Heritage Asset facilities added to the Real Property Inventory, offset by demolition of 151 Buildings or Structures.

Heritage Asset buildings/structures are maintained by each base civil engineering group and are considered to be in good condition. These facilities are subject to NHPA Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal leaders, local leaders and preservation groups, and other party’s concerns are taken into account when the Air Force decides to adversely affect Heritage Asset buildings and structures. Hundreds of Section 106 (now moved from Title 16 USC to Title 54 USC, Section 306108) reviews are in effect at any given time; many take more than a year to complete. Some are part of National Environmental Policy Act reviews.

## 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 and 36 CFR Part 60.4. The Air Force reported 1,835

archeological sites were Heritage Assets as of Sep 2016. The AF has not yet collected FY17 data on the number of archaeological Heritage Assets, and so herein reports the FY16 number, 1,886. This cohort of archaeological Heritage Assets is a subset of over 22,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories. The total of recorded archaeological sites increased by over 1000 in FY 2016, but the number determined eligible for the National Register increased by only 51. The AF collects previous FY archaeological Heritage Asset data in the annual Defense Environmental Program Annual Report to Congress (DEPARC) in December of the following FY. The FY 2017 data will be known at that time, well after the RSI Report due date.

### 3. Museum Collection Items, Objects

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

During the period 1 October 2016 – 30 September 2017 there have been 306 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. 444 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY 2017 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, the 221 artifacts selected for the Memphis Belle exhibit, the P-47 gunsight, and artifacts for the Rocket Fuel Handlers exhibit.

### 4. Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1071 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

The Air Force Art Program (SAF/AO) also contains a collection of art work. The art collection contains original oils, drawing, sketches and sculptures. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. This represents 20 additions into the Air Force Art Program. 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.

**Stewardship Land**

| <b>STEWARDSHIP LAND</b>                         |                             |                      |                  |                  |                      |
|---|-----------------------------|----------------------|------------------|------------------|----------------------|
| <b>For Fiscal Year Ended September 30, 2017</b> |                             |                      |                  |                  |                      |
| <b>(Acres in Thousands)</b>                     |                             |                      |                  |                  |                      |
| <b>Facility Code</b>                            | <b>Facility Title</b>       | <b>As of 9/30/16</b> | <b>Additions</b> | <b>Deletions</b> | <b>As of 9/30/17</b> |
| 9110  | Government Owned Land       | 1,561                | 0                | 0                | 1,561                |
| 9111  | State Owned Land            | 0                    | 0                | 0                | 0                    |
| 9120  | Withdrawn Public land       | 6,272                | 0                | 0                | 6,272                |
| 9130  | Licensed and Permitted Land | 735                  | 3                | 0                | 738                  |
| 9140  | Public Land                 | 0                    | 0                | 0                | 0                    |
| 9210  | Land Easement               | 160                  | 1                | 0                | 161                  |
| 9220  | In-leased Land              | 103                  | 0                | 1                | 102                  |
| 9230  | Foreign Land                | 296                  | 1                | 0                | 297                  |
| <b>Grand Total</b>                              |                             |                      |                  |                  | <b>9,131</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 9,130,681 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</b>   |                                |   |                   |
|---|--------------------------------|---|-------------------|
| <b>For Fiscal Year Ended September 30, 2017</b>   |                                |   |                   |
| <b>(\$ 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)                          | \$274,742                      | \$31,712                                    | 11.54%            |
| Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement) | \$35,783                       | \$1,530                                     | 4.28%             |
| Category 3: Buildings, Structures, and Utilities (Heritage Assets)                              | \$1,449                        | \$18  | 1.25%             |



Condition Assessment Survey Method - The deferred maintenance figures in column 2 consist of SMS generated, predicted, or known maintenance and repair requirements needed to correct facility deficiencies in the Air Force inventory. Air Force Q-Ratings have historically not been based off direct condition assessments, but represent identified requirements by engineers at the installation level. However, starting in 2013 the Air Force began implementing a sustainment management system (SMS) condition assessment method, including contract condition inspections at the installations and training the in-house personnel. Required SMS development is estimated to finish in 2020.

Currently, BUILDER SMS is the only SMS that possess the capability to generate the FCI. PAVER does not have the capability of generating FCI, but can generate deferred maintenance and repair estimates. UTILITIES SMS is under development. The Air Force has inventoried and assessed approximately 75% of facilities, 30% of utilities, and 100% of airfield pavements. Furthermore, facilities are 78% complete with category 1, 76% complete with category 2, and 44% complete with category 3. Utilities data was not available for each RPUID, but was available on an aggregated level. Approximately 0.5% of utilities (PRV basis) is category three; therefore, it was assumed that any deferred maintenance on Category 3 utility systems were negligible. Simplified statistical methods, or age based predictive calculations, were used to predict the deferred maintenance where SMS data was not available.

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, heritage and excess.

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.

| <b>Military Equipment Deferred Maintenance<br/>For Fiscal Year Ended September 30, 2017<br/>(\$ in Thousands)</b> |                          |                       |                  |
|---|--------------------------|-----------------------|------------------|
| <b>Major Categories</b>   | <b>PB-61<br/>Amounts</b> | <b>Adjustments</b>    | <b>Total</b>     |
| 1. Aircraft   | \$ 3,142,726             | \$ (3,097,954)        | \$ 44,772        |
| 2. Automotive Equipment   | 8,884                    | (8,884)               | 0                |
| 3. Combat<br>Vehicles   | 31,029                   | (31,029)              | 0                |
| 4. Construction Equipment   | 0                        | 0                     | 0                |
| 5. Electronic and Communications Systems  | 714,731                  | (714,731)             | 0                |
| 6. Missiles   | 75,953                   | (75,886)              | 67               |
| 7. Ships  | 0                        | 0                     | 0                |
| 8. Ordnance Weapons and Munitions   | 24,614                   | (24,614)              | 0                |
| 9. General Purpose Equipment  | 7,219                    | (7,219)               | 0                |
| 10. All Other Items Not Identified to Above Categories  | 0                        | 0                     | 0                |
| <b>Total</b>  | <b>\$ 4,005,156</b>      | <b>\$ (3,960,317)</b> | <b>\$ 44,839</b> |

## **Weapon System Sustainment (WSS)**

### **Deferred Maintenance and Repairs (M&R) for Fiscal Year 2017**

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

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

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

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

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

### **Factors Considered in Setting Acceptable Condition**

WSS entity defines acceptable condition using Life-cycle costing

Significant Changes from Prior Year and Related Events

The total projected deferred requirements of \$44.772 million is due to deferring:

- A-10 – \$12.8M: Seven aircraft were not inducted due to capacity constraints and will be moved to the out years.
- C-130 - \$8.707M: Two aircraft were deferred into FY18 due to capacity limitations.

- F-16 – \$4.521M: 33 aircraft are deferred into FY 2018 due to capacity limitations for over and above work requirements.
- B-52 - \$12.406M: One aircraft is deferred into FY 2018 due to depot capacity limitations.
- C-17 – \$5.876M: One aircraft is deferred into FY 2018 due to a new depot induction scheduling method (staggered vice nose-to-tail).
- ICBM - \$.067M: Missile battery depot maintenance was suspended due to a facility incident.
- T-38 – \$0.462M: Deferring two aircraft that require dual modifications that were not repaired in time to fly to depot for planned maintenance.

**Deferred Maintenance and Repair Costs**

(Dollars in Millions)

| <b>Asset Category</b> | <b>2017<br/>Ending Balance<br/>DM&amp;R</b> | <b>2017<br/>Beginning Balance<br/>DM&amp;R</b> |
|-----------------------|---|--|
| General PP&E          | \$0   | \$0  |
| Total                 | \$44.839M                                   | \$0  |

# **General Fund**

## **Fiscal Year 2017**

### **Audit Opinion**



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

November 13, 2017

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2017 and  
FY 2016 Basic Financial Statements (Project No. D2017-D000FT-0132.000,  
Report No. DODIG-2018-014)

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

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying Air Force General Fund consolidated balance sheet as of September 30, 2017, and September 30, 2016, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

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

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

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

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements," September 29, 2017. 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 GAGAS that are consistent with the representations made by management. Air Force management asserted to us that the Air Force General Fund FY 2017 and FY 2016 Basic Financial Statements would not substantially conform to 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, 2017. We considered the scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 17-03 to determine whether material amounts on the basic financial statements were presented fairly.

During FY 2017, Air Force management identified a material error concerning the Operating Materials and Supply (OM&S) inventory balance that resulted from an erroneous drawdown of spare engine inventory.<sup>1</sup> The material error affected FY 2016 OM&S spare engine inventory held for use balances. The Air Force stated it has initiated corrective actions and has begun making adjustments to reflect the correct spare engine balances.

## ***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 2017 and FY 2016 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

<sup>1</sup> We based our analysis on Air Force reported prior period Inventory and Related Property balances.

### ***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, the Air Force has elected to change its accounting policy for Inventory and Related Property and Property, Plant, and Equipment in FY 2017. The Air Force performed a revaluation of Inventory and Related Property and Property, Plant, and Equipment using a Deemed Cost in accordance with the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 48 and No. 50. Because of the significance of the matters described in the Disclaimer of Opinion, we did not perform procedures related to the Air Force's change in accounting policy to determine if the Air Force appropriately presented the change. Therefore, we do not provide any assurance on the appropriateness of the revaluation.

### ***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 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 information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," August 15, 2017, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements."

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

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. Air Force management represented that instances of noncompliance identified in prior audits continue to exist; therefore, we did not

determine whether the Air Force General Fund complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. It was not our objective to provide an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements and, accordingly, we do not express such an opinion.

See Attachment 1 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). Assistant Secretary of the Air Force (Financial Management and Comptroller) officials expressed their continuing commitment to address the problems this report outlines.

This report will be made publicly available under section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Air Force Management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used by, any other audience.

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 and for expressing our opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

### ***Management Responsibilities***

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

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

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

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

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force General Fund's 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 that transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls

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

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

**General Property, Plant, and Equipment.** SFFAS 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 General Fund management acknowledged that it cannot validate the reported value of acquisition cost, accumulated depreciation, and construction-in-process. Accordingly, Air Force management was not certain that the General Property, Plant, and Equipment balances reported in its Basic Financial Statements were accurate.

**Intragovernmental Eliminations.** The Air Force did not accurately identify intragovernmental transactions and balances by customer. Additionally, the Air Force could not reconcile intragovernmental transactions and balances between its DoD and other Federal trading partners. Therefore, the Air Force could not properly eliminate all intragovernmental transactions occurring within the DoD or between two or more Federal agencies.

**Operating Materials and Supplies (OM&S).** The Air Force is required by SFFAS No. 3, “Accounting for Inventory and Related Property,” to use the historical cost to value its OM&S inventory. This statement also requires that an expense be recorded for OM&S when the user consumes such items. The Air Force has acknowledged that the balances reported on the financial statements are derived from logistics systems designed to manage inventory and maintenance. For example, the munitions management system, the Combat Ammunition System (CAS), does not maintain the historical cost data necessary to comply with the valuation requirements of the SFFAS No. 3. Accordingly, management was not certain that the OM&S 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 (OM&S) in the possession of contractors. The Air Force did not account for contractor-managed property in an Air Force accountable property system of record.

**Government Property in Possession of Contractors.** SFFAS 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 does not always properly report environmental cleanup liabilities or maintain supporting documentation for all environmental sites. In addition, the Air Force reported that active environmental liabilities lack consistency and standardization of business practice.

**Reconciliation of Net Cost of Operations to Budget.** SFFAS No. 7, “Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting,” requires a reconciliation of the 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, the Air Force is not always able to reconcile the resources obligated during the accounting period to the net cost of operations for that period as required by federal accounting standards. As a result, the Air Force may not have accurately reconciled budgetary amounts to actual proprietary expenses and assets and liabilities.

**Accounting Entries (Journal Vouchers).** The Air Force continued to make material journal vouchers for financial reporting that were not supported with sufficient documentation because of the deficiencies described previously. 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. Air Force General Fund management asserted to us that the Accounting Entries material weakness no longer exists. We requested detailed information regarding the improvements. Air Force General Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this material weakness continued to exist for FY 2017.

**Financial Reporting.** The Air Force is not always able to detect and evaluate abnormal balances. Air Force management reported a lack of sufficient centralized financial statement analytical and review functions. In addition, the Air Force is not always able to validate the completeness of the transactions underlying the Schedule of Budgetary Activity. The inability to validate the completeness of the transactions also materially affects the Air Force General Fund basic financial statements.

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

**Multi-Service Contract Accounting.** The Air Force does not always allocate progress payments and recoupments on multi-service contracts in a GAAP-compliant manner.

**Air Force Policies and Procedures.** The Air Force does not always properly identify and record recoveries in the accounting system. Inaccurate Miscellaneous Obligation Reimbursements Documents are used and the Air Force does not always correctly record progress payments and advance payments.

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

Air Force General Fund 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 four significant deficiencies continue to exist.

- **Fund Balance With Treasury.** Air Force management acknowledged that further improvements were required to enable the Fund Balance With Treasury reconciliation process to reduce the amount of unresolved reconciling items that were outstanding in excess of Treasury guidelines of 60 days. The Air Force's implementation of this internal control to reconcile its balances to the Treasury by itself does not ensure that Fund Balance With Treasury is ready for audit or presented fairly in accordance with GAAP.
- **Accounts Receivable.** The Air Force did not properly reconcile and support the validity of the Accounts Receivable line item due to deficiencies related to intragovernmental trading partner eliminations and proper accrual accountability and support.
- **Accounts Payable.** The Air Force did not ensure the accuracy of the amount of the Accounts Payable line item because there were deficiencies identified in the areas of intragovernmental trading partner eliminations, accruals, and supporting documentation. These deficiencies result in an inability to properly reconcile and support the validity of Accounts Payable.
- **Reimbursable Programs.** Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires the Air Force to track the cost of 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, the Air Force's management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Air Force may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Air Force reported the material weaknesses described above in its FMFIA report, except for General Property, Plant, and Equipment.

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

GAGAS 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 limited our work to determining compliance with selected provisions of the applicable laws and regulations, contracts, and grant agreements. Other noncompliance may have occurred and not been detected, and 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.

### ***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 immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2017, the Air Force General Fund reported five ADA violations within one completed case.

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

### ***Compliance With OMB Circular A-136***

OMB Circular No. A-136 requires management to notify the primary users of their financial statements of a material error and plans for correction as soon as possible after material errors are detected. The notification must be provided to Congress, OMB, Treasury, and GAO in writing and made public on the internet pages where the previous financial statements were published. In August 2017, the Air Force notified us of a material error in OM&S inventory related to spare engines. According to the Air Force, the material error caused a material misstatement of the FY 2016 Air Fund General Fund financial statements. The Air Force acknowledged that corrective actions were ongoing. However, the Air Force had not complied with the notification requirements of OMB Circular No. A-136. Until the corrective actions and notifications are completed, we cannot substantiate whether the Air Force General Fund complied with OMB reporting guidance.

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

The FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned

or underway to bring the systems into substantial compliance with the FFMIA. The Air Force stated it is committed to effective financial management. The Air Force is using the lessons learned and best practices from previous Schedule of Budgetary Activity audits to enhance its preparation for the full financial statement audit while refining its strategy to achieve auditability.

For FY 2017, the Air Force General Fund did not substantially comply with the FFMIA. The Air Force acknowledged to us that Air Force General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2017. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force General Fund complied with the 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 2017

The FY 2017 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, 2017, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2016.

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

### **Consolidated Balance Sheet**

The Consolidated Balance Sheet, as of September 30, 2017 and 2016, represents 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, 2017 and 2016.

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

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2017 and 2016, the status of these resources at September 30, 2017 and 2016, and the outlay of budgetary resources for the years ended September 30, 2017 and 2016.

### **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, 2017 and 2016. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

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

**Air Force Working Capital Fund**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2017 and 2016**  
**(\$ in Thousands)**

|   | <u>2017 Consolidated</u>    | <u>2016 Consolidated</u>    |
|---|-----------------------------|-----------------------------|
| <b>ASSETS (Note 2)</b>  |                             |                             |
| Intragovernmental:  |                             |                             |
| Fund Balance with Treasury (Note 3)                                 | \$ 1,862,661                | \$ 1,424,254                |
| Accounts Receivable (Note 5)  | 760,030                     | 802,295                     |
| Other Assets (Note 6)   | 163,756                     | 191,874                     |
| Total Intragovernmental Assets                                      | <u>\$ 2,786,447</u>         | <u>\$ 2,418,423</u>         |
| Accounts Receivable, Net (Note 5)                                   | 667                         | 12,242                      |
| Inventory and Related Property, Net (Note 9)                        | 23,311,136                  | 23,341,427                  |
| General Property, Plant and Equipment, Net (Note 10)                | 1,567,647                   | 1,590,966                   |
| Other Assets (Note 6)   | 134,392                     | 180,364                     |
| <b>TOTAL ASSETS</b>   | <u><u>\$ 27,800,289</u></u> | <u><u>\$ 27,543,422</u></u> |
| <b>LIABILITIES (Note 11)</b>  |                             |                             |
| Intragovernmental:  |                             |                             |
| Accounts Payable (Note 12)  | \$ 220,094                  | \$ 154,593                  |
| Other Liabilities (Note 15 & 16)                                    | 55,134                      | 56,729                      |
| Total Intragovernmental Liabilities                                 | <u>\$ 275,228</u>           | <u>\$ 211,322</u>           |
| Accounts Payable (Note 12)  | \$ 397,315                  | \$ 476,034                  |
| Military Retirement and Other Federal Employment Benefits (Note 17) | 190,435                     | 191,466                     |
| Other Liabilities (Note 15 and Note 16)                             | 403,774                     | 376,879                     |
| <b>TOTAL LIABILITIES</b>  | <u><u>\$ 1,266,752</u></u>  | <u><u>\$ 1,255,701</u></u>  |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>                      |                             |                             |
| <b>NET POSITION</b>   |                             |                             |
| Unexpended Appropriations - Other Funds                             | 47,941                      | 26,252                      |
| Cumulative Results of Operations - Other Funds                      | 26,485,596                  | 26,261,469                  |
| <b>TOTAL NET POSITION</b>   | <u><u>\$ 26,533,537</u></u> | <u><u>\$ 26,287,721</u></u> |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                           | <u><u>\$ 27,800,289</u></u> | <u><u>\$ 27,543,422</u></u> |

**Air Force Working Capital Fund**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|   | <u>2017 Consolidated</u> | <u>2016 Consolidated</u> |
|---|--------------------------|--------------------------|
| <b>CUMULATIVE RESULTS OF OPERATIONS</b>                       |                          |                          |
| <b>Beginning Balances</b>                                     | \$ 26,261,469            | \$ 26,347,302            |
| <b>Beginning balances, as adjusted (Includes Funds from</b>   | 26,261,469               | 26,347,302               |
| <b>Dedicated Collections - See Note 23)</b>                   |                          |                          |
| <b>Budgetary Financing Sources:</b>                           |                          |                          |
| Appropriations used   | 42,279                   | 36,646                   |
| Nonexchange revenue   | (4)                      | (23)                     |
| Transfers-in/out without reimbursement                        | 0                        | (447,000)                |
| <b>Other Financing Sources:</b>                               |                          |                          |
| Transfers-in/out without reimbursement (+/-)                  | 10,809                   | (23,178)                 |
| Imputed financing from costs absorbed by others               | 135,668                  | 161,137                  |
| Other (+/-)   | (175,632)                | 138,004                  |
| <b>Total Financing Sources (Includes Funds from Dedicated</b> | 13,120                   | (134,414)                |
| <b>Collections - See Note 23)</b>                             |                          |                          |
| <b>Net Cost of Operations (+/-) (Includes Funds from</b>      | (211,007)                | (48,581)                 |
| <b>Dedicated Collections - See Note 23)</b>                   |                          |                          |
| <b>Net Change</b>   | 224,127                  | (85,833)                 |
| <b>Cumulative Results of Operations (Includes Funds from</b>  | 26,485,596               | 26,261,469               |
| <b>Dedicated Collections - See Note 23)</b>                   |                          |                          |
| <b>UNEXPENDED APPROPRIATIONS</b>                              |                          |                          |
| <b>Beginning Balances (Includes Funds from Dedicated</b>      | \$ 26,252                | \$ 0                     |
| <b>Collections - See Note 23)</b>                             |                          |                          |
| <b>Beginning balances, as adjusted</b>                        | 26,252                   | 0                        |
| <b>Budgetary Financing Sources:</b>                           |                          |                          |
| Appropriations transferred-in/out                             | 63,967                   | 62,898                   |
| Other adjustments (+/-)                                       | 1                        | 0                        |
| Appropriations used   | (42,279)                 | (36,646)                 |
| <b>Total Budgetary Financing Sources (Includes Funds from</b> | 21,689                   | 26,252                   |
| <b>Dedicated Collections - See Note 23)</b>                   |                          |                          |
| <b>Unexpended Appropriations (Includes Funds from</b>         | 47,941                   | 26,252                   |
| <b>Dedicated Collections - See Note 23)</b>                   |                          |                          |
| <b>Net Position</b>   | 26,533,537               | 26,287,721               |

**Air Force Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2017 and 2016**

(\$ in Thousands)

|   | <u>2017 Combined</u>     | <u>2016 Combined</u>     |
|---|--------------------------|--------------------------|
| <b>Budgetary Resources:</b>   |                          |                          |
| Unobligated balance brought forward, Oct 1                                      | 1,424,846                | 1,392,939                |
| Unobligated balance brought forward, Oct 1, as adjusted                         | \$ 1,424,846             | \$ 1,392,939             |
| Recoveries of unpaid prior year obligations                                     | 60,118                   | 6,788                    |
| Other changes in unobligated balance (+ or -)                                   | (60,118)                 | (453,788)                |
| Unobligated balance from prior year budget authority, net                       | 1,424,846                | 945,939                  |
| Appropriations (discretionary and mandatory)                                    | 63,967                   | 62,898                   |
| Contract Authority (discretionary and mandatory)                                | 10,227,928               | 9,872,672                |
| Spending Authority from offsetting collections<br>(discretionary and mandatory) | 6,496,313                | 6,654,155                |
| <b>Total Budgetary Resources</b>  | <u><u>18,213,054</u></u> | <u><u>17,535,664</u></u> |
| <b>Status of Budgetary Resources:</b>   |                          |                          |
| New obligations and upward adjustments (total)                                  | 16,882,143               | 16,110,818               |
| Unobligated balance, end of year:   |                          |                          |
| Apportioned, unexpired accounts   | 1,330,911                | 1,424,846                |
| Unexpired unobligated balance, end of year                                      | 1,330,911                | 1,424,846                |
| Unobligated balance, end of year (total)  | <u>1,330,911</u>         | <u>1,424,846</u>         |
| <b>Total Budgetary Resources</b>  | <u><u>18,213,054</u></u> | <u><u>17,535,664</u></u> |
| <b>Change in Obligated Balance:</b>   |                          |                          |
| <b>Unpaid obligations:</b>  |                          |                          |
| Unpaid obligations, brought forward, Oct 1                                      | 7,217,701                | 6,711,809                |
| New obligations and upward adjustments  | 16,882,143               | 16,110,818               |
| Outlays (gross) (-)   | (16,312,276)             | (15,598,138)             |
| Recoveries of prior year unpaid obligations (-)                                 | (60,118)                 | (6,788)                  |
| Unpaid obligations, end of year   | 7,727,450                | 7,217,701                |
| <b>Uncollected payments:</b>  |                          |                          |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-)                      | (4,115,382)              | (4,057,055)              |
| Change in uncollected pymts, Fed sources (+ or -)                               | (294,005)                | (58,328)                 |
| Uncollected pymts, Fed sources, end of year (-)                                 | (4,409,387)              | (4,115,383)              |
| <b>Memorandum Entries:</b>  |                          |                          |
| Obligated balance, start of year (+ or -)                                       | <u>3,102,319</u>         | <u>2,654,754</u>         |
| Obligated balance, end of year (+ or -)   | <u><u>3,318,063</u></u>  | <u><u>3,102,318</u></u>  |

**Air Force Working Capital Fund**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|   | <u>2017 Combined</u> | <u>2016 Combined</u> |
|---|----------------------|----------------------|
| <b>Budget Authority and Outlays, Net:</b>                       |                      |                      |
| Budget authority, gross (discretionary and mandatory)           | 16,788,208           | 16,589,725           |
| Actual offsetting collections (discretionary and mandatory) (-) | (16,686,715)         | (15,989,254)         |
| Change in uncollected payments, Federal                         | (294,005)            | (58,328)             |
| Sources (discretionary and mandatory) (+ or -)                  |                      |                      |
| Budget Authority, net (total) (discretionary and mandatory)     | <u>(192,512)</u>     | <u>542,143</u>       |
| Outlays, gross (discretionary and mandatory)                    | 16,312,276           | 15,598,138           |
| Actual offsetting collections (discretionary and mandatory) (-) | (16,686,715)         | (15,989,254)         |
| Outlays, net (total) (discretionary and mandatory)              | <u>(374,439)</u>     | <u>(391,116)</u>     |
| Agency Outlays, net (discretionary and mandatory)               | <u>(374,439)</u>     | <u>(391,116)</u>     |

**Air Force Working Capital Fund**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|  | <u>2017 Consolidated</u> | <u>2016 Consolidated</u> |
|--|--------------------------|--------------------------|
| <b>Program Costs</b>   |                          |                          |
| Gross Costs  | \$ 12,040,803            | \$ 10,646,562            |
| Operations, Readiness & Support  | 12,040,802               | 10,646,563               |
|  | <u>(12,251,810)</u>      | <u>(10,695,143)</u>      |
| Net Cost before Losses/(Gains) from Actuarial Assumption Changes<br>for Military Retirement Benefits | (211,007)                | (48,581)                 |
| Net Program Costs Including Assumption Changes   | (211,007)                | (48,581)                 |
| <b>Net Cost of Operations</b>  | <u>\$ (211,007)</u>      | <u>\$ (48,581)</u>       |

# **Working Capital Fund**

Fiscal Year 2017

## **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> |
|----------------|--|

**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 three financial statement material weaknesses: (1) AFWCF lacks an integrated financial management system, (2) 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, (3) AFWCF cannot accurately identify all intragovernmental transactions by customer, which is required for eliminations when preparing consolidated financial statements.

**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 repairable and consumable items, and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage repairable and consumable items for which the Air Force is the Inventory Control Point. The Supply Division manages more than 74 thousand items that are generally related to weapon systems and ground support, and include both depot level repairables and non-depot level repairables.



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 DoD and non DoD agencies. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable.

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

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

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

Not applicable.

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

The AFWCF values its resale inventory using the moving average cost method. However, most transitioned balances were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3. The AFWCF when applicable, will continue to adopt SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials" permitting alternative methods in establishing opening balances.

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

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

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

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

maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

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

Not applicable.

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

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

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

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

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

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

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

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

Not applicable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable.

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

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

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

**1.X. Fiduciary Activities**

Not applicable.

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

Not applicable.

**1.Z. Significant Events**

Not applicable.

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

| As of September 30                 | 2017          | 2016          |
|------------------------------------|---------------|---------------|
| (Amounts in thousands)             |               |               |
| <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             | 5             | 9             |
| C. Other Assets                    | 0             | 0             |
| D. Total Nonfederal Assets         | \$ 5          | \$ 9          |
| <b>3. Total Nonentity Assets</b>   | \$ 5          | \$ 9          |
| <b>4. Total Entity Assets</b>      | \$ 27,800,284 | \$ 27,543,413 |
| <b>5. Total Assets</b>             | \$ 27,800,289 | \$ 27,543,422 |

**Relevant Information for Comprehension**

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                                 | 2017         | 2016         |
|--|--------------|--------------|
| (Amounts in thousands)                             |              |              |
| <b>1. Fund Balances</b>                            |              |              |
| A. Appropriated Funds                              | \$ 0         | \$ 0         |
| B. Revolving Funds                                 | 1,862,661    | 1,424,254    |
| C. Trust Funds                                     | 0            | 0            |
| D. Special Funds                                   | 0            | 0            |
| E. Other Fund Types                                | 0            | 0            |
| F. Total Fund Balances                             | \$ 1,862,661 | \$ 1,424,254 |
| <b>2. Fund Balances Per Treasury Versus Agency</b> |              |              |
| A. Fund Balance per Treasury                       | \$ 2,718,768 | \$ 2,259,902 |
| B. Fund Balance per AFWCF                          | 1,862,661    | 1,424,254    |
| <b>3. Reconciling Amount</b>                       | \$ 856,107   | \$ 835,648   |

**Relevant Information for Comprehension**

The reconciling amount represents \$856.1 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations Working Capital Funds reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

Undistributed disbursement and collection adjustments totaling \$33.2 million were recorded in order to reconcile the general ledger amount to the Treasury amount reported for the AF WCF.



## Status of Fund Balance with Treasury

| As of September 30                            | 2017 |             | 2016 |             |
|---|------|-------------|------|-------------|
| (Amounts in thousands)                        |      |             |      |             |
| <b>1. Unobligated Balance</b>                 |      |             |      |             |
| A. Available                                  | \$   | 1,330,911   | \$   | 1,424,846   |
| B. Unavailable                                |      | 0           |      | 0           |
| <b>2. Obligated Balance not yet Disbursed</b> | \$   | 7,727,450   | \$   | 7,217,701   |
| <b>3. Non budgetary FBWT</b>                  | \$   | 0           | \$   | 0           |
| <b>4. Non FBWT Budgetary Accounts</b>         | \$   | (7,195,700) | \$   | (7,218,293) |
| <b>5. Total</b>                               | \$   | 1,862,661   | \$   | 1,424,254   |

### Relevant Information for Comprehension

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

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

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

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

|                |   |
|----------------|---|
| <b>Note 4.</b> | <b>Investments and Related Interest</b> |
|----------------|---|

AFWCF has no Investments and Related Interest.

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

| As of September 30                                 | 2017              |  |                          |
|--|-------------------|--|--------------------------|
|  | Gross Amount Due  | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands)                             |                   |  |                          |
| <b>1. Intragovernmental Receivables</b>            | \$ 760,030        | N/A                                    | \$ 760,030               |
| <b>2. Nonfederal Receivables (From the Public)</b> | \$ 706            | \$ (39)                                | \$ 667                   |
| <b>3. Total Accounts Receivable</b>                | <u>\$ 760,736</u> | <u>\$ (39)</u>                         | <u>\$ 760,697</u>        |

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

#### Relevant Information for Comprehension

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> |
|----------------|---------------------|

| As of September 30                         | 2017                     | 2016                     |
|--|--------------------------|--------------------------|
| (Amounts in thousands)                     |                          |                          |
| <b>1. Intragovernmental Other Assets</b>   |                          |                          |
| A. Advances and Prepayments                | \$ 0                     | \$ 28                    |
| B. Other Assets                            | 163,756                  | 191,846                  |
| C. Total Intragovernmental Other Assets    | <u>\$ 163,756</u>        | <u>\$ 191,874</u>        |
| <b>2. Nonfederal Other Assets</b>          |                          |                          |
| A. Outstanding Contract Financing Payments | \$ 126,082               | \$ 171,889               |
| B. Advances and Prepayments                | 7,746                    | 7,574                    |
| C. Other Assets (With the Public)          | 564                      | 901                      |
| D. Total Nonfederal Other Assets           | <u>\$ 134,392</u>        | <u>\$ 180,364</u>        |
| <b>3. Total Other Assets</b>               | <u><u>\$ 298,148</u></u> | <u><u>\$ 372,238</u></u> |

### Relevant Information for Comprehension

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

Outstanding Contract Financing Payments includes \$117.3 million in contract financing payments and an additional \$8.8 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 \$163.8 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 \$564.0 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> |
|----------------|---------------------------------------|

AFWCF has no Cash and Other Monetary Assets.

|                |   |
|----------------|---|
| <b>Note 8.</b> | <b>Direct Loans and Loan Guarantees</b> |
|----------------|---|

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

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

| As of September 30                     | 2017                 | 2016                 |
|--|----------------------|----------------------|
| (Amounts in thousands)                 |                      |                      |
| 1. Inventory, Net                      | \$ 23,180,258        | \$ 23,210,893        |
| 2. Operating Materials & Supplies, Net | 130,878              | 130,534              |
| 3. Stockpile Materiel, Net             | 0                    | 0                    |
| <b>4. Total</b>                        | <b>\$ 23,311,136</b> | <b>\$ 23,341,427</b> |

## Inventory, Net

| As of September 30                     | 2017                   |                       |                   | Valuation Method |
|--|------------------------|-----------------------|-------------------|------------------|
|  | Inventory, Gross Value | Revaluation Allowance | Inventory, Net    |                  |
| (Amounts in thousands)                 |                        |                       |                   |                  |
| <b>1. Inventory Categories</b>         |                        |                       |                   |                  |
| A. Available and Purchased for Resale  | \$ 12,012,998          | \$ 0                  | 12,012,998        | MAC,FIFO,<br>LAC |
| B. Held for Repair                     | 15,571,151             | (4,417,888)           | 11,153,263        | LAC,MAC          |
| C. Excess, Obsolete, and Unserviceable | 275,531                | (275,531)             | 0                 | NRV              |
| D. Raw Materials                       | 0                      | 0                     | 0                 | MAC,SP,LAC       |
| E. Work in Process                     | 13,997                 | 0                     | 13,997            | AC               |
| <b>F. Total</b>                        | <b>\$ 27,873,677</b>   | <b>\$ (4,693,419)</b> | <b>23,180,258</b> |                  |

| As of September 30                     | 2016                   |                       |                   | Valuation Method |
|--|------------------------|-----------------------|-------------------|------------------|
|  | Inventory, Gross Value | Revaluation Allowance | Inventory, Net    |                  |
| (Amounts in thousands)                 |                        |                       |                   |                  |
| <b>1. Inventory Categories</b>         |                        |                       |                   |                  |
| A. Available and Purchased for Resale  | \$ 12,402,957          | \$ 0                  | 12,402,957        | MAC,FIFO,<br>LAC |
| B. Held for Repair                     | 14,388,082             | (3,583,068)           | 10,805,014        | LAC,MAC          |
| C. Excess, Obsolete, and Unserviceable | 484,265                | (484,265)             | 0                 | NRV              |
| D. Raw Materials                       | 0                      | 0                     | 0                 | MAC,SP,LAC       |
| E. Work in Process                     | 2,922                  | 0                     | 2,922             | AC               |
| <b>F. Total</b>                        | <b>\$ 27,278,226</b>   | <b>\$ (4,067,333)</b> | <b>23,210,893</b> |                  |

### Legend for Valuation Methods:

LAC = Latest Acquisition Cost

NRV = Net Realizable Value

MAC = Moving Average Cost

SP = Standard Price

LCM = Lower of Cost or Market

AC = Actual Cost

FIFO = First-In-First-Out

### 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 repairable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, 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 repairable 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                     | 2017              |                       |                   | Valuation Method |
|--|-------------------|-----------------------|-------------------|------------------|
|  | OM&S Gross Value  | Revaluation Allowance | OM&S, Net         |                  |
| (Amounts in thousands)                 |                   |                       |                   |                  |
| <b>1. OM&amp;S Categories</b>          |                   |                       |                   |                  |
| A. Held for Use                        | \$ 130,878        | \$ 0                  | \$ 130,878        | 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>\$ 130,878</b> | <b>\$ 0</b>           | <b>\$ 130,878</b> |                  |

| As of September 30                     | 2016              |                       |                   | Valuation Method |
|--|-------------------|-----------------------|-------------------|------------------|
|  | OM&S Gross Value  | Revaluation Allowance | OM&S, Net         |                  |
| (Amounts in thousands)                 |                   |                       |                   |                  |
| <b>1. OM&amp;S Categories</b>          |                   |                       |                   |                  |
| A. Held for Use                        | \$ 130,534        | \$ 0                  | \$ 130,534        | SP, LAC, MAC     |
| B. Held for Repair                     | 0                 | 0                     | 0                 | SP, LAC, MAC     |
| C. Excess, Obsolete, and Unserviceable | 0                 | 0                     | 0                 | NRV              |
| <b>D. Total</b>                        | <b>\$ 130,534</b> | <b>\$ 0</b>           | <b>\$ 130,534</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  
 FIFO = First-In-First-Out

MAC = Moving Average Cost

### General Composition of Operating Material and Supplies

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

### Restrictions

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

### Definition

Held for Use includes consumable parts and supplies.

## Stockpile Materiel, Net

AFWCF has no Stockpile Materiel.



|                 |   |
|-----------------|---|
| <b>Note 10.</b> | <b>General Property, Plant &amp; Equipment, Net</b> |
|-----------------|---|

| As of September 30                             | 2017                                    |                 |                      |  |                   |
|--|---|-----------------|----------------------|--|-------------------|
|  | Depreciation/<br>Amortization<br>Method | Service<br>Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value |
| (Amounts in thousands)                         |   |                 |                      |  |                   |
| <b>1. Major Asset Classes</b>                  |   |                 |                      |  |                   |
| A. Land  | N/A                                     | N/A             | \$ 0                 | N/A  | \$ 0              |
| B. Buildings,<br>Structures, and<br>Facilities | S/L                                     | 20 Or 40        | 1,465,445            | \$ (861,563)                                   | 603,882           |
| C. Leasehold<br>Improvements                   | S/L                                     | Lease Term      | 0                    | 0  | 0                 |
| D. Software                                    | S/L                                     | 2-5 Or 10       | 1,157,552            | (1,114,863)                                    | 42,689            |
| E. General Equipment                           | S/L                                     | Various         | 3,300,534            | (2,597,907)                                    | 702,627           |
| F. Assets Under<br>Capital Lease               | S/L                                     | Lease Term      | 0                    | 0  | 0                 |
| G. Construction-in-<br>Progress                | N/A                                     | N/A             | 218,449              | N/A  | 218,449           |
| H. Other                                       |   |                 | 0                    | 0  | 0                 |
| I. Total General PP&E                          |   |                 | \$ 6,141,980         | \$ (4,574,333)                                 | \$ 1,567,647      |

| As of September 30                             | 2016                                    |                 |                      |  |                   |
|--|---|-----------------|----------------------|--|-------------------|
|  | Depreciation/<br>Amortization<br>Method | Service<br>Life | Acquisition<br>Value | (Accumulated<br>Depreciation/<br>Amortization) | Net Book<br>Value |
| (Amounts in thousands)                         |   |                 |                      |  |                   |
| <b>1. Major Asset Classes</b>                  |   |                 |                      |  |                   |
| A. Land  | N/A                                     | N/A             | \$ 0                 | N/A  | \$ 0              |
| B. Buildings,<br>Structures, and<br>Facilities | S/L                                     | 20 Or 40        | 1,448,987            | \$ (834,490)                                   | 614,497           |
| C. Leasehold<br>Improvements                   | S/L                                     | Lease Term      | 0                    | 0  | 0                 |
| D. Software                                    | S/L                                     | 2-5 Or 10       | 1,142,636            | (1,109,264)                                    | 33,372            |
| E. General Equipment                           | S/L                                     | Various         | 3,180,464            | (2,476,190)                                    | 704,274           |
| F. Assets Under<br>Capital Lease               | S/L                                     | Lease Term      | 0,                   | 0  | 0                 |
| G. Construction-in-<br>Progress                | N/A                                     | N/A             | 238,823              | N/A  | 238,823           |
| H. Other                                       |   |                 | 0                    | 0  | 0                 |
| I. Total General PP&E                          |   |                 | \$ 6,010,910         | \$ (4,419,944)                                 | \$ 1,590,966      |

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

## Assets Under Capital Lease

AFWCF has no Assets Under Capital Lease.

### Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30<br>(Amounts in thousands)                    | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>1. Intragovernmental Liabilities</b>                         |                     |                     |
| A. Accounts Payable   | \$ 0                | \$ 0                |
| B. Debt   | 0                   | 0                   |
| C. Other  | 37,558              | 39,769              |
| <b>D. Total Intragovernmental Liabilities</b>                   | <b>\$ 37,558</b>    | <b>\$ 39,769</b>    |
| <b>2. Nonfederal Liabilities</b>                                |                     |                     |
| A. Accounts Payable   | \$ 0                | \$ 0                |
| B. Military Retirement and<br>Other Federal Employment Benefits | 190,435             | 191,466             |
| C. Environmental and Disposal Liabilities                       | 0                   | 0                   |
| D. Other Liabilities  | 0                   | 0                   |
| <b>E. Total Nonfederal Liabilities</b>                          | <b>\$ 190,435</b>   | <b>\$ 191,466</b>   |
| <b>3. Total Liabilities Not Covered by Budgetary Resources</b>  | <b>\$ 227,993</b>   | <b>\$ 231,235</b>   |
| <b>4. Total Liabilities Covered by Budgetary Resources</b>      | <b>\$ 1,038,759</b> | <b>\$ 1,024,466</b> |
| <b>5. Total Liabilities</b>                                     | <b>\$ 1,266,752</b> | <b>\$ 1,255,701</b> |

#### Relevant Information for Comprehension

The \$37.6 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> |
|-----------------|-------------------------|

| As of September 30                     | 2017              |  |                   |
|--|-------------------|--|-------------------|
|  | Accounts Payable  | Interest, Penalties, and Administrative Fees | Total             |
| (Amounts in thousands)                 |                   |  |                   |
| 1. Intragovernmental Payables          | \$ 220,094        | \$ N/A                                       | \$ 220,094        |
| 2. Nonfederal Payables (to the Public) | 397,315           | 0  | 397,315           |
| <b>3. Total</b>                        | <b>\$ 617,409</b> | <b>\$ 0</b>                                  | <b>\$ 617,409</b> |

| As of September 30                     | 2016              |  |                   |
|--|-------------------|--|-------------------|
|  | Accounts Payable  | Interest, Penalties, and Administrative Fees | Total             |
| (Amounts in thousands)                 |                   |  |                   |
| 1. Intragovernmental Payables          | \$ 154,593        | \$ N/A                                       | \$ 154,593        |
| 2. Nonfederal Payables (to the Public) | 476,034           | 0  | 476,034           |
| <b>3. Total</b>                        | <b>\$ 630,627</b> | <b>\$ 0</b>                                  | <b>\$ 630,627</b> |

#### Relevant Information for Comprehension

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

|                 |             |
|-----------------|-------------|
| <b>Note 13.</b> | <b>Debt</b> |
|-----------------|-------------|

The AFWCF has no Debt.

|                 |   |
|-----------------|---|
| <b>Note 14.</b> | <b>Environmental Liabilities and Disposal Liabilities</b> |
|-----------------|---|

The AFWCF has no Environmental Liabilities and Disposal Liabilities.

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

As of September 30

(Amounts in thousands)

|  | 2017              |                      |                   |
|--|-------------------|----------------------|-------------------|
|  | Current Liability | Noncurrent Liability | Total             |
| <b>1. Intragovernmental</b>                        |                   |                      |                   |
| A. Advances from Others                            | \$ 1              | \$ 0                 | \$ 1              |
| 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   | 17,365            | 20,192               | 37,557            |
| F. Custodial Liabilities                           | 5                 | 0                    | 5                 |
| G. Employer Contribution and Payroll Taxes Payable | 17,571            | 0                    | 17,571            |
| H. Other Liabilities                               | 0                 | 0                    | 0                 |
| I. Total Intragovernmental Other Liabilities       | <u>\$ 34,942</u>  | <u>\$ 20,192</u>     | <u>\$ 55,134</u>  |
| <b>2. Nonfederal</b>                               |                   |                      |                   |
| A. Accrued Funded Payroll and Benefits             | \$ 204,367        | \$ 0                 | \$ 204,367        |
| B. Advances from Others                            | 134,503           | 0                    | 134,503           |
| C. Deferred Credits                                | 0                 | 0                    | 0                 |
| D. Deposit Funds and Suspense Accounts             | 0                 | 0                    | 0                 |
| E. Temporary Early Retirement Authority            | 0                 | 0                    | 0                 |
| F. Non-environmental 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                              | 12,611            | 0                    | 12,611            |
| J. Employer Contribution and Payroll Taxes Payable | 0                 | 0                    | 0                 |
| K. Contingent Liabilities                          | 0                 | 8,778                | 8,778             |
| L. Other Liabilities                               | 43,515            | 0                    | 43,515            |
| M. Total Nonfederal Other Liabilities              | <u>\$ 394,996</u> | <u>\$ 8,778</u>      | <u>\$ 403,774</u> |
| <b>3. Total Other Liabilities</b>                  | <u>\$ 429,938</u> | <u>\$ 28,970</u>     | <u>\$ 458,908</u> |

| As of September 30                                 | 2016                     |                         |                          |
|--|--------------------------|-------------------------|--------------------------|
|  | 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   | 18,145                   | 21,625                  | 39,770                   |
| F. Custodial Liabilities                           | 9                        | 0                       | 9                        |
| G. Employer Contribution and Payroll Taxes Payable | 16,950                   | 0                       | 16,950                   |
| H. Other Liabilities                               | 0                        | 0                       | 0                        |
| I. Total Intragovernmental Other Liabilities       | <u>\$ 35,104</u>         | <u>\$ 21,625</u>        | <u>\$ 56,729</u>         |
| <b>2. Nonfederal</b>                               |                          |                         |                          |
| A. Accrued Funded Payroll and Benefits             | \$ 192,422               | \$ 0                    | \$ 192,422               |
| B. Advances from Others                            | 122,333                  | 0                       | 122,333                  |
| C. Deferred Credits                                | 0                        | 0                       | 0                        |
| D. Deposit Funds and Suspense Accounts             | 0                        | 0                       | 0                        |
| E. Temporary Early Retirement Authority            | 0                        | 0                       | 0                        |
| F. Nonenvironmental Disposal Liabilities           |                          |                         |                          |
| (1) Military Equipment (Nonnuclear)                | 0                        | 0                       | 0                        |
| (2) Excess/Obsolete Structures                     | 0                        | 0                       | 0                        |
| (3) Conventional Munitions Disposal                | 0                        | 0                       | 0                        |
| G. Accrued Unfunded Annual Leave                   | 0                        | 0                       | 0                        |
| H. Capital Lease Liability                         | 0                        | 0                       | 0                        |
| I. Contract Holdbacks                              | 5,741                    | 0                       | 5,741                    |
| J. Employer Contribution and Payroll Taxes Payable | 0                        | 0                       | 0                        |
| K. Contingent Liabilities                          | 0                        | 12,182                  | 12,182                   |
| L. Other Liabilities                               | 44,201                   | 0                       | 44,201                   |
| M. Total Nonfederal Other Liabilities              | <u>\$ 364,697</u>        | <u>\$ 12,182</u>        | <u>\$ 376,879</u>        |
| <b>3. Total Other Liabilities</b>                  | <u><b>\$ 399,801</b></u> | <u><b>\$ 33,807</b></u> | <u><b>\$ 433,608</b></u> |

**Relevant Information for Comprehension**

The \$43.5 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 \$8.8 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 that the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but not yet paid are estimable, the AFWCF has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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

## Capital Lease Liability

The AFWCF has no Capital Leases.

## Note 16. Commitments and Contingencies

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

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

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

| As of September 30   | 2017              |  |                      |
|--|-------------------|--|----------------------|
|  | 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  | \$ 190,435        | \$ 0                                     | \$ 190,435           |
| 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  | \$ 190,435        | \$ 0                                     | \$ 190,435           |
| <b>3. Total Military Retirement and Other Federal Employment Benefits:</b> | <b>\$ 190,435</b> | <b>\$ 0</b>                              | <b>\$ 190,435</b>    |

| As of September 30   | 2016              |  |                      |
|--|-------------------|--|----------------------|
|  | 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  | \$ 191,466        | \$ 0                                     | \$ 191,466           |
| B. Voluntary Separation Incentive Programs                                 | 0                 | 0  | 0                    |
| C. DoD Education Benefits Fund   | 0                 | 0  | 0                    |
| D. Other   | 0                 | 0  | 0                    |
| E. Total Other Benefits  | \$ 191,466        | \$ 0                                     | \$ 191,466           |
| <b>3. Total Military Retirement and Other Federal Employment Benefits:</b> | <b>\$ 191,466</b> | <b>\$ 0</b>                              | <b>\$ 191,466</b>    |



## Relevant Information for Comprehension

### 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.

2017 Interest rate assumptions utilized for discounting were as follows:

- 2.218% in Year 1
- 2.218% 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) 2017 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:

| <b>CBY</b>     | <b>COLA</b> | <b>CPIM</b> |
|----------------|-------------|-------------|
| 2017           | N/A         | N/A         |
| 2018           | 1.22%       | 3.20%       |
| 2019           | 1.35%       | 3.52%       |
| 2020           | 1.59%       | 3.80%       |
| 2021           | 1.99%       | 3.99%       |
| 2022 and after | 2.26%       | 3.91%       |

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 2017 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 2017 projection to the average pattern for the projections of the most recent three years.

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

| Intragovernmental Costs and Exchange Revenue |      |      |
|--|------|------|
| As of September 30                           | 2017 | 2016 |

(Amounts in thousands)

**Operations, Readiness & Support**

## 1. Gross Cost

|                           |                      |                      |
|---------------------------|----------------------|----------------------|
| A. Intragovernmental Cost | \$ 1,894,397         | \$ 1,306,388         |
| B. Nonfederal Cost        | 10,146,406           | 9,340,175            |
| C. Total Cost             | <u>\$ 12,040,803</u> | <u>\$ 10,646,563</u> |

## 2. Earned Revenue

|                              |                        |                        |
|------------------------------|------------------------|------------------------|
| A. Intragovernmental Revenue | \$ (10,727,486)        | \$ (10,293,438)        |
| B. Nonfederal Revenue        | (1,524,324)            | (401,705)              |
| C. Total Revenue             | <u>\$ (12,251,810)</u> | <u>\$ (10,695,143)</u> |

## 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

## Total Net Cost

|                     |                    |
|---------------------|--------------------|
| <u>\$ (211,007)</u> | <u>\$ (48,580)</u> |
|---------------------|--------------------|

**Consolidated**

## 1. Gross Cost

|                           |                      |                      |
|---------------------------|----------------------|----------------------|
| A. Intragovernmental Cost | \$ 1,894,397         | \$ 1,306,388         |
| B. Nonfederal Cost        | 10,146,406           | 9,340,175            |
| C. Total Cost             | <u>\$ 12,040,803</u> | <u>\$ 10,646,563</u> |

## 2. Earned Revenue

|                              |                        |                        |
|------------------------------|------------------------|------------------------|
| A. Intragovernmental Revenue | \$ (10,727,486)        | \$ (10,293,438)        |
| B. Nonfederal Revenue        | (1,524,324)            | (401,705)              |
| C. Total Revenue             | <u>\$ (12,251,810)</u> | <u>\$ (10,695,143)</u> |

## 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

## 4. Costs Not Assigned to Programs

|        |        |
|--------|--------|
| \$ (1) | \$ (1) |
|--------|--------|

## 5. (Less: Earned Revenues) Not Attributed to Programs

|      |      |
|------|------|
| \$ 0 | \$ 0 |
|------|------|

## Total Net Cost

|                     |                    |
|---------------------|--------------------|
| <u>\$ (211,008)</u> | <u>\$ (48,581)</u> |
|---------------------|--------------------|

**Relevant Information for Comprehension**

A \$1.4 billion abnormal balance exists within USSGLA 7210. The abnormal balance is the result of an inventory process to record an exchange sale of a Depot-Level Repairable (DLR) asset.

A \$629.8 million 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 AFWCF 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> |
|-----------------|--|

A \$1.4 billion abnormal balance exists within USSGLA 7210. The abnormal balance is the result of an inventory process to record an exchange sale of a Depot-Level Repairable (DLR) asset. There are several steps for accounting for an exchange sale, with one of the steps resulting in a reclassification of Inventory Held for Sale to Inventory Held for Repair. It is the recording of this step that has resulted in the abnormal balance in USSGLA 7210.

A \$629.8 million 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 AFWCF to the Defense Reutilization and Marketing Organization (DRMO).

The \$175.6 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 \$64.0 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> |
|-----------------|--|

| As of September 30<br>(Amounts in thousands)   | 2017         | 2016         |
|--|--------------|--------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 6,683,272 | \$ 6,223,693 |
| 2. Available Borrowing and Contract Authority at the End of the Period                         | 0            | 0            |

**Relevant Information for Comprehension**

The AFWCF reported \$64.0 million in direct obligations and \$16.8 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 \$64.0 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.

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

As of September 30

2017

2016

(Amounts in thousands)

**Resources Used to Finance Activities:**

Budgetary Resources Obligated:

|  |               |               |
|--|---------------|---------------|
| 1. Obligations incurred  | \$ 16,882,143 | \$ 16,110,818 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (17,040,837)  | (16,054,371)  |
| 3. Obligations net of offsetting collections and recoveries                | \$ (158,694)  | \$ 56,447     |
| 4. Less: Offsetting receipts (-)   | 0             | 0             |
| 5. Net obligations   | \$ (158,694)  | \$ 56,447     |

Other Resources:

|   |                     |                   |
|---|---------------------|-------------------|
| 6. Donations and forfeitures of property              | 0                   | 0                 |
| 7. Transfers in/out without reimbursement (+/-)       | 10,809              | (23,178)          |
| 8. Imputed financing from costs absorbed by others    | 135,668             | 161,137           |
| 9. Other (+/-)  | (175,632)           | 138,004           |
| 10. Net other resources used to finance activities    | \$ (29,155)         | \$ 275,963        |
| <b>11. Total resources used to finance activities</b> | <b>\$ (187,849)</b> | <b>\$ 332,410</b> |

**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 (-)  | \$ (459,579)          | \$ (676,754)          |
| 12b. Unfilled Customer Orders  | 336,516               | 81,606                |
| 13. Resources that fund expenses recognized in prior periods (-)   | (3,241)               | (3,009)               |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations                | 0                     | (1)                   |
| 15. Resources that finance the acquisition of assets (-)   | (5,366,904)           | (4,948,451)           |
| 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 (+/-)   | 164,824               | (114,826)             |
| <b>17. Total resources used to finance items not part of the Net Cost of Operations</b>                    | <b>\$ (5,328,382)</b> | <b>\$ (5,661,435)</b> |
| <b>18. Total resources used to finance the Net Cost of Operations</b>                                      | <b>\$ (5,516,231)</b> | <b>\$ (5,329,025)</b> |

As of September 30

2017

2016

(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 (-)  |    | 10,985 |    | (8,958) |
| 23. Other (+/-)  |    | 0      |    | 3,362   |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | \$ | 10,985 | \$ | (5,596) |

Components not Requiring or Generating Resources:

|  |    |             |    |             |
|--|----|-------------|----|-------------|
| 25. Depreciation and amortization  | \$ | 179,250     | \$ | 189,656     |
| 26. Revaluation of assets or liabilities (+/-)   |    | (3,184,963) |    | (2,302,755) |
| 27. Other (+/-)  |    |             |    |             |
| 27a. Trust Fund Exchange Revenue   |    | 0           |    | 0           |
| 27b. Cost of Goods Sold  |    | 14,182,454  |    | 13,601,067  |
| 27c. Operating Material and Supplies Used  |    | 2,172       |    | 3,137       |
| 27d. Other   |    | (5,884,674) |    | (6,205,065) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | \$ | 5,294,239   | \$ | 5,286,040   |

**29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period**      \$      5,305,224      \$      5,280,444

**30. Net Cost of Operations**      \$      (211,007)      \$      (48,581)

**Relevant Information for Comprehension**

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 \$48.0 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 \$180.0 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 \$6.7 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

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

The Air Force collected \$6,100 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.

|                 |   |
|-----------------|---|
| <b>Note 23.</b> | <b>Funds from Dedicated Collections</b> |
|-----------------|---|

AFWCF has no Funds from Dedicated Collections.

|                 |                             |
|-----------------|-----------------------------|
| <b>Note 24.</b> | <b>Fiduciary Activities</b> |
|-----------------|-----------------------------|

AFWCF has no Fiduciary Activities.

|                 |                          |
|-----------------|--------------------------|
| <b>Note 25.</b> | <b>Other Disclosures</b> |
|-----------------|--------------------------|

AFWCF has no Other Disclosures.

|                 |                     |
|-----------------|---------------------|
| <b>Note 26.</b> | <b>Restatements</b> |
|-----------------|---------------------|

Not applicable for 2016.

**Working Capital**  
**Fund** Fiscal Year 2017  
Required Supplementary Information



**Department of Defense**  
**Air Force Working Capital Fund**  
**STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES**  
**For the periods ended September 30, 2017 and 2016**  
**(\$ in Thousands)**

|  | <u>Operations, Readiness &amp; Support</u> | <u>2017 Combined</u> | <u>2016 Combined</u> |
|--|--|----------------------|----------------------|
| <b>Budgetary Resources:</b>  |  |                      |                      |
| Unobligated balance brought for, October 1   | 1,424,846                                  | 1,424,846            | 1,392,940            |
| Unobligated balance brought forward,<br>October 1, as adjusted   | 1,424,846                                  | 1,424,846            | 1,392,940            |
| Recoveries of prior year unpaid obligations  | 60,118                                     | 60,118               | 6,788                |
| Other changes in unobligated balance (+ or -)  | (60,118)                                   | (60,118)             | (453,788)            |
| Unobligated balance from prior year budget authority, net  | 1,424,846                                  | 1,424,846            | 945,940              |
| Appropriations (discretionary and mandatory)   | 63,967                                     | 63,967               | 62,898               |
| Contract Authority (discretionary and mandatory)   | 10,227,928                                 | 10,227,928           | 9,872,671            |
| Spending Authority from offsetting collections<br>(discretionary and mandatory)                        | 6,496,314                                  | 6,496,314            | 6,654,155            |
| Total Budgetary Resources  | <u>\$ 18,213,055</u>                       | <u>18,213,055</u>    | <u>17,535,664</u>    |
| <b>Status of Budgetary Resources:</b>  |  |                      |                      |
| New obligations and upward adjustments (total)   | 16,882,143                                 | 16,882,143           | 16,110,818           |
| Unobligated balance, end of year:  |  |                      |                      |
| Apportioned, unexpired accounts  | 1,330,911                                  | 1,330,911            | 1,424,846            |
| Unexpired unobligated balance, end of year   | 1,330,911                                  | 1,330,911            | 1,424,846            |
| Total unobligated balance, end of year (total)   | <u>1,330,911</u>                           | <u>1,330,911</u>     | <u>1,424,846</u>     |
| Total Budgetary Resources  | <u>\$ 18,213,054</u>                       | <u>18,213,054</u>    | <u>17,535,664</u>    |
| <b>Change in Obligated Balance:</b>  |  |                      |                      |
| <b>Unpaid obligations:</b>   |  |                      |                      |
| Unpaid obligations, brought forward, October 1   | 7,217,701                                  | 7,217,701            | 6,711,809            |
| New obligations and upward adjustments   | 16,882,143                                 | 16,882,143           | 16,110,818           |
| Outlays (gross) (-)  | (16,312,276)                               | (16,312,276)         | (15,598,138)         |
| Recoveries of prior year unpaid obligations (-)  | (60,118)                                   | (60,118)             | (6,788)              |
| Unpaid obligations, end of year  | <u>\$ 7,727,450</u>                        | <u>7,727,450</u>     | <u>7,217,701</u>     |
| <b>Uncollected Payments:</b>   |  |                      |                      |
| Uncollected pymts, Fed sources, brought forward, Oct. 1 (-)  | (4,115,383)                                | (4,115,383)          | (4,057,054)          |
| Change in uncollected pymts, Fed sources (+ or -)  | (294,005)                                  | (294,005)            | (58,329)             |
| Uncollected pymts, Fed sources, end of year (-)  | <u>(4,409,388)</u>                         | <u>(4,409,388)</u>   | <u>(4,115,383)</u>   |
| Obligated balance, start of year (+ or -)  | <u>3,102,318</u>                           | <u>3,102,318</u>     | <u>2,654,755</u>     |
| Obligated balance, end of year (+ or -)  | <u>\$ 3,318,062</u>                        | <u>3,318,062</u>     | <u>3,102,318</u>     |
| <b>Budget Authority and Outlays, Net:</b>  |  |                      |                      |
| Budget authority, gross (discretionary and mandatory)  | 16,788,209                                 | 16,788,209           | 16,589,724           |
| Actual offsetting collections (discretionary and mandatory) (-)  | (16,686,714)                               | (16,686,714)         | (15,989,254)         |
| Change in uncollected customer payments from Federal<br>Sources (discretionary and mandatory) (+ or -) | <u>(294,005)</u>                           | <u>(294,005)</u>     | <u>(58,329)</u>      |
| Budget Authority, net (discretionary and mandatory)  | <u>\$ (192,510)</u>                        | <u>(192,510)</u>     | <u>542,141</u>       |
| Outlays, gross (discretionary and mandatory)   | 16,312,276                                 | 16,312,276           | 15,598,138           |
| Actual offsetting collections (discretionary and mandatory) (-)  | (16,686,714)                               | (16,686,714)         | (15,989,254)         |
| Outlays, net (discretionary and mandatory)   | <u>(374,438)</u>                           | <u>(374,438)</u>     | <u>(391,116)</u>     |
| Agency Outlays, net (discretionary and mandatory)  | <u>\$ (374,438)</u>                        | <u>(374,438)</u>     | <u>(391,116)</u>     |

**Working Capital**  
**Fund Fiscal Year 2017**  
Audit Opinion



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

November 13, 2017

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

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund  
FY 2017 and FY 2016 Basic Financial Statements  
(Project No. D2017-D000FT-0133.000, Report No. DODIG-2018-015)

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

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying Air Force Working Capital Fund consolidated balance sheet as of September 30, 2017, and September 30, 2016, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

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

Air Force management is responsible for the annual financial statements. Management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (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 Working Capital Fund's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

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

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 17-03, "Audit Requirements for Federal Financial Statements," September 29, 2017. 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 GAGAS that are consistent with the representations made by management. Air Force management asserted to us that the Air Force Working Capital Fund FY 2017 and FY 2016 Basic Financial Statements would not substantially conform to GAAP and that the Air Force Working Capital Fund financial management and feeder systems were unable to support material amounts on the basic financial statements as of September 30, 2017. We considered the scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 17-03 to determine whether material amounts on the basic financial statements were presented fairly.

### ***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 2017 and FY 2016 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 and Required Supplementary 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 information for inconsistencies with the audited basic

financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), “Financial Reporting Requirements,” August 15, 2017, and DoD Regulation 7000.14-R, “Financial Management Regulation,” volume 6b, “Form and Content of the Department of Defense Audited Financial Statements.”

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

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

See Attachment 1 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). Assistant Secretary of the Air Force (Financial Management and Comptroller) officials expressed their continuing commitment to address the problems this report outlines.

This report will be made publicly available under section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; Air Force management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used by, any other audience.

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



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment:

As stated

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

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

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

### ***Management Responsibilities***

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

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

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

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

Management acknowledged that previously identified material weaknesses continued to exist. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force Working Capital Fund's 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 that transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting

standards. This statement also requires that financial management system controls ensure proper safeguards for assets to deter fraud, waste, and abuse and provide adequate support for performance-measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of legacy Air Force financial management and feeder systems did not allow the systems to collect and record financial information based on a full-accrual accounting basis at the transaction level. Until these systems are able to collect and report financial information in compliance with GAAP, the Air Force will base their proprietary financial reporting on budgetary transactions and nonfinancial feeder systems.

**Inventory.** 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 inventory. The standard also requires that an expense be recorded and cost of goods be removed from inventory when title passes to the purchasing entity. The Air Force's inventory management systems did not provide sufficient audit trails to value the in-transit inventory included as part of inventory held for sale on the Balance Sheet.

**General Property, Plant, and Equipment.** Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment data using acquisition cost, capitalized improvement costs, and depreciation expense. Air Force Working Capital Fund management asserted to us that the material weakness within General Property, Plant, and Equipment no longer exists. We requested detailed information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this material weakness continued to exist for FY 2017.

**Subsidiary Ledgers and Special Journals.** Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts.

**Intragovernmental Eliminations.** The Air Force could not accurately identify all intragovernmental transactions by customer. In addition, intragovernmental transactions are not always eliminated.



**Accounting Entries (Journal Vouchers).** The Air Force continued to make material journal vouchers for financial reporting that were not supported with sufficient documentation because of the deficiencies described previously. Air Force Working Capital Fund management asserted to us that the material weakness within accounting entries no longer exists. We requested detailed information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this material weakness continued to exist for FY 2017.

**Spending Authority From Offsetting Collections Earned and Collected.** The Air Force did not always reconcile Spending Authority, Earned and Collected, as reported on the Statement of Budgetary Resources with transactional details. The Air Force is unable to reconcile cash collections to supporting transactional details for wholesale and retail supply. Air Force Working Capital Fund management asserted to us that the material weakness within spending authority from offsetting collections earned and collected no longer exists. We requested detailed information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this material weakness continued to exist for FY 2017.

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

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 two previously identified significant deficiencies continued to exist for FY 2017.

- **Accounts Receivable.** The Air Force is unable to properly reconcile and support the validity of the Accounts Receivable financial statement line item due to reportable conditions for intragovernmental trading partner eliminations and proper accrual accountability and support. Air Force Working Capital Fund management asserted to us that the significant deficiency for accounts receivable no longer exists. We requested detailed

information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this significant deficiency continued to exist for FY 2017.

- **Accounts Payable.** The Air Force is unable to properly reconcile and support the validity of Accounts Payable due to reportable conditions identified in the areas of intragovernmental trading partner eliminations and accruals and a lack of supporting documentation. Air Force Working Capital Fund management asserted to us that the significant deficiency for accounts payable no longer exists. We requested detailed information regarding the improvements. Air Force Working Capital Fund management was not able to provide sufficient details for us to confirm that corrective actions have been completed as of September 30, 2017. Therefore, this significant deficiency continued to exist for FY 2017.

These financial management control deficiencies may cause inaccurate management information. As a result, Air Force's 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; Subsidiary Ledgers and Special Journals; Accounting Entries; and Working Capital Fund Spending Authority from Offsetting Collections Earned and Collected.

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

GAGAS 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 limited our work to determining compliance with selected provisions of the applicable laws, regulations, contracts, and grant agreements.

Other noncompliance may have occurred and not been detected, and 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.

### ***Antideficiency Act***

Section 1341, title 31, United States Code (31 U.S.C. §1341 [1990]) limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C §1517 (2004), the Air Force and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. §1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2017, the Air Force Working Capital Fund reported no Antideficiency Act violations.

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

The FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2017, the Air Force Working Capital Fund did not substantially comply with the FFMIA. The Air Force acknowledged to us that Air Force Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2017. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force Working Capital Fund complied with the 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)**

**1500 West Perimeter Rd, Suite 3100**

**Joint Base Andrews, Maryland 20762**

**[www.saffm.hq.af.mil](http://www.saffm.hq.af.mil)**

