

*Department of the Air Force  
General Funds*

Chief Financial  
Officer  
Annual Financial  
Statement  
FY 1997

February 27, 1998



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# ***DEPARTMENT OF THE AIR FORCE***

## ***FISCAL YEAR 1997 AIR FORCE GENERAL FUNDS***

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SECRETARY OF THE AIR FORCE  
WASHINGTON



February 1998

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

On September 18, 1997, the Air Force celebrated its 50<sup>th</sup> birthday. Those first fifty years were momentous ones for our Service. During this period, we employed new technologies and new operational concepts. These new approaches, combined with the professionalism and skill of our men and women, permitted us to build the world's most powerful air and space force.

Now we look to the future. Ensuring that we continue to make our unique contribution to the Nation's joint forces will require vision and commitment. Our long-range plan--*Global Engagement: A Vision for the 21<sup>st</sup> Century Air Force*--defines our vision and our commitment to provide America the air and space capabilities required to deter, fight, and win.

We must of course have the financial resources to meet this commitment, and we must spend those resources wisely. In fiscal year 1997, the Air Force budget amounted to about \$73 billion. Consistent with the requirements of the Chief Financial Officers Act, this report documents how we spent the funds devoted to our general fund activities.

In order to make the most effective use of these budget dollars, the Air Force must remain a leader in financial reform. We need better financial information for our commanders and managers in order to permit them to manage effectively, and we must meet all legal and regulatory requirements for financial data and reports. This document identifies our plan for continuing financial reform. We have made significant progress in improving financial management in the Air Force, and I am strongly committed to continued improvement.

We must bring together and make effective use of all the financial and other resources that are needed to maintain the Nation's air and space power. Our vision remains: *Air Force people building the world's most respected air and space force...global power and reach for America.*

  
F. Whitten Peters  
Acting Secretary of the Air Force





DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC 20330-1000



February 1998

OFFICE OF THE ASSISTANT SECRETARY

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

I am pleased to present the Air Force General Fund financial statements for FY 1997. These statements fulfill the requirements of the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA).

Our general funds statements document how the Air Force spent the nearly \$73 billion in budget authority allocated to us in FY 1997. In addition, the overview material provides descriptive information and selected measures of operational performance that help explain how the funds were used. Our intent is to provide Air Force commanders, the Congress, and the public with helpful information and the ability to assess Air Force financial stewardship.

This document also specifies our plan for improving financial management in the Air Force and highlights four key initiatives. Later this year, we intend to submit a plan in support of the Government Performance and Results Act. That plan will, among other things, identify a comprehensive set of performance measures that can be used in our financial statements. We are supporting efforts by our commanders to improve cost information – a key step toward better management. This year, for the first time, we are seeking a formal audit opinion of a new principal statement, the Statement of Budgetary Resources – an important first step toward our goal of achieving fully auditable statements. Finally, in cooperation with the Defense Finance and Accounting Service, we have an aggressive program underway to improve Air Force financial systems, many of which are antiquated and unable to provide adequate, timely financial information.

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

A handwritten signature in cursive script that reads "Robert F. Hale".

Robert F. Hale



***DEPARTMENT OF THE  
AIR FORCE***

***GENERAL FUNDS***

***OVERVIEW***





50 YEARS OF



AIR & SPACE DOMINANCE  
THROUGH  
INVENTION & INNOVATION



# UNITED STATES AIR FORCE

## MISSION

*To defend the United States through control and exploitation of Air and Space.*

## VISION

*Air Force people building the world's most respected Air and Space force - - global power & reach for America.*

## CORE VALUES

*It's not technology that makes the Air Force successful. It's the people operating the technology - - their dedication, their skill, and most importantly, the core values they live and work by:*

<b>INTEGRITY FIRST</b>	Everyone must know the right thing to do - - and have the moral courage to do it.
<b>SERVICE BEFORE SELF</b>	One purpose rises above all others - - to serve your country.
<b>EXCELLENCE IN ALL WE DO</b>	Everyone needs to always perform their critical duties to the best of their abilities.

## CORE COMPETENCIES

*Our Nation's Air Force develops, trains, sustains, and integrates the element of air and space power to produce:*

<b>Air &amp; Space Superiority</b>	Establishing control over the entire vertical dimension
<b>Global Attack</b>	Project power rapidly, precisely, and globally
<b>Rapid Global Mobility</b>	Ability to rapidly and flexibly respond to the full spectrum of contingencies
<b>Precision Engagement</b>	Ability to reliably and selectively apply the full range of precision capabilities to achieve the desired effect with minimal risk and collateral damage
<b>Information Superiority</b>	The ability to collect, control, exploit, and defend information, while denying the adversary the same
<b>Agile Combat Support</b>	Time-definite resupply and total asset visibility, while reducing the mobility "footprint"

*Space, flexibility, and the global nature of its reach and perspective distinguished the Air Force's execution of its core competencies.*

## THE VISION IN ACTION



The Air Force's look into the future, which was formalized in 1996 as **Global Engagement**, was not just a lofty statement of intent - - it was an actionable vision. A vision specific enough to allow the Air Force to lay out defined measurable pathways to take it to its goals.

The Air Force is developing a long range plan to make this vision come true. A strategic vision is a critical first step, but the real challenge is to make the vision specific and actionable.

Much of this program specificity was laid out in the Air Force's underlying contemporaneous study, **AIR FORCE 2025**. This study, using the concept of alternate futures, set out certain systems, technologies, and trends that are to be the foundation upon which these highways to the future will be built. Some of these systems, technologies, and trends are already moving from the thought to the action phase. It has been said that those who anticipate the changes in warfare are the victors; those who adapt themselves to changes after they occur are, more often than not, the losers. Not only is the Air Force in the business of anticipating changes in the character of war, the Air Force IS the change.

Some examples of how the Air Force is putting this vision into action are:

- The transition to an air and space force
- The capability to find, fix, track, and target enemy forces on a global scale
- Air dominance
- Including the reserve component in the exercise of the Air Force's core competencies

### **AIR Force   ➡   AIR and SPACE Force**

One of the primary goals set out in the long range plan is that the “Air Force will fully integrate space and air into all its operations as it transitions from an air force into an air and space force on its evolutionary path to a space and air force.”

The Air Force is well on to its way to realizing this goal. Over the coming years, the Air Force will undergo an historic change in its character as it transitions to that next step--*the air and space force of the 21<sup>st</sup> century*. The magnitude of this change needs to be clearly understood. It is not just about technology; it is not just about money; it is mostly about people. The Air Force realizes that what is involved is a change in its institutional culture--that these cultural changes do not happen by themselves overnight. There needs to be impetus to this change, but also the realization that change takes time.

## Overview

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First, the Air Force must destroy the “stove pipes”, the disciplinary specialties that have traditionally divided its people. Air Force people have always tended to identify with their operational specialties or weapon systems, rather than with the Air Force mission as a whole - - it must move beyond that.

Secondly, the Air Force must broaden its understanding of what an operator is. There’s a need to look beyond aircraft or missile crews, and to include in that understanding all people who have experience and expertise in the application of air and space power to achieve the Air Force’s mission.

Third, at the senior leadership level, the Air Force can no longer afford a few scattered “space generals” who inject their “space expertise” wherever and whenever it is needed. The Air Force must build a sure, deep expertise among all its operational leaders in the capabilities of our space-based forces and how to use these air and space forces in a synergistic way in any theater of conflict.

This vision of a transition to an *air and space force* founded on a cultural change will remain just words unless the Air Force takes action to give an impetus to this change. Recognizing this need for an actionable vision the Air Force is:

- Moving ahead with an Air and Space Basic Course. It will bring all of its new officers, selected NCOs, and civilians together and create a thorough knowledge of the day-to-day capabilities of combined air and space operations. Most officer graduates will go directly to operational jobs before performing their functional specialty. *Airmen will be Airmen first*, and pilots, missileers, logisticians, etc. second.
- Reaping the benefits of initiatives such as the Space Warfare Center at Falcon AFB, CO. Here pilots, space operators, and intelligence people work side by side and gain an appreciation for what each brings to the fight.
- Including space experts in the Weapons School at Nellis AFB, NV. They are learning in an “hands-on” environment how all the air and space pieces should fit together.

These are steps being taken to actuate this cultural change. The Air Force needs to be vigorous, systematic, and above all patient, in assuring that this cultural change takes place and holds. The first long range plan which sets out the process to achieve its strategic vision for the 21<sup>st</sup> Century, directs the Air Force to fully integrate air and space operations as it transitions to an air and space force. Defense in the 21<sup>st</sup> century will be inexorably linked to *air and space operations*.

***FIND-FIX-TRACK-TARGET***



In the first quarter of the 21<sup>st</sup> century, the Air Force sees the combination of the revolution in information technology and advanced sensor systems making it possible to ***find, fix, track, and target*** anything on a global scale with near real-time precision. This will change the character of warfare from a serial application of force to a parallel application. The Air Force is not there yet, but definitive steps have been taken to make sure this part of the **Global Engagement** vision is put into action.

**Find:** The Air Force has 250 percent more satellites in orbit now, than during the Cold War. But to be able to continue to keep its advantage in not letting anybody or anything hide, it not only needs more “eyes in space”, but the ability to quickly and cheaply replace any satellite that becomes non-operative due to any reason. To do this, the nation needs a new launch system. This requirement is being satisfied by the Evolved Expandable Launch Vehicle (EELV) which is fully funded in the Air Force program. The EELV is an integral part of the core competency of ***Air and Space Superiority***.



**Fix:** The Navstar Global Positioning System (GPS), which is a constellation of 24 satellites, can triangulate any location on earth from the nearest three satellites to pinpoint the exact longitude and latitude coordinates of any target. This system is in use now - - the challenge is in calibrating it for more pinpoint accuracy and integrating it with other systems. If the Air Force can pinpoint a target’s latitude and longitude and then guide a bomb to that exact location by strapping a GPS receiver on it, it would be “down the smokestack” every time. This is the basic idea behind the GATS/GAM (Global Positioning System–Aided Targeting System/Global Positioning System–Aided Munitions). This will become the definition of the core competency of ***Precision Engagement***.



**Track:** Targets are not always static - - they move or “pop up” in unexpected locations. The Air Force has already demonstrated the capability to get downlinks from intelligence satellites on orbit into the cockpit of one of its fighters enroute to the target. It also has shown that when a missile radar target “popped up” it had the capability to send a Predator, an unmanned aerial vehicle (UAV), to the target area to get an eyes-on look at the target and relay what it saw to an intelligence command center. The meshing of the intelligence satellites with the UAV in a matter of seconds will allow nothing to be unforeseen or escape. The basic underlying capabilities to actualize this vision are there and are well on the way to refinement. The UAV is a critical component of the core competency of ***Information Superiority***.



## Overview

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**Target:** One of the more serious threats U.S. and Allied troops in the field face is from theater area missiles. The reality of this threat was shown by Iraq's use of the SCUD during the Gulf



War. While the missile itself was crude, it had the capability to cause serious damage and did result in some thorny problems. It was decided the best defense against this threat was not by neutralizing it in the descent phase, but in the boost phase. To do this we need to know precisely where the missile launch is, so the Space-Based Infrared System (SBIRS) was programmed and funded. SBIRS will relay missile theater launch information to our airborne laser (ABL), a high-energy laser mounted in the nose of a modified Boeing 747. The ABL will proceed to knock missiles out of the sky during their boost phase. That means that whatever is in that

missile will land on the enemy's own real estate. These systems are an important part of the core competency of *Air and Space Superiority*.

### *AIR DOMINANCE*

To find, fix, track, and target anything that moves or tries to hide on this globe you need *absolute information dominance*. The Air Force is swiftly moving towards this end state by building a web where its sensors, command centers, and shooters are all linked by real-time communication.

To achieve this information dominance, and to deny any part of it to our potential adversaries, the Air Force must protect the air breathing links of this web (e.g., the AWACS (Airborne Warning and Control System), JSTARS (Joint Surveillance and Target Attack Radar System) and the ABL (Airborne Laser)). To do this, you need more than just air superiority - - you need *absolute air dominance*.

The F-22 Raptor, with its potent combination of stealth, supercruise, and integrated avionics, will give the Air Force the means to achieve and maintain this *air dominance* well into the 21<sup>st</sup> Century, thus assuring the transition of the Air Force to an Air and Space Force.

### *ASSURES*

**AIR  
DOMINANCE**



**INFORMATION  
SUPERIORITY**

**THE RESERVE COMPONENT**

The dramatic reductions the Air Force, as well as the other Services have experienced since 1990, demands even greater reliance on the **Total Force**. In the case of airpower, the **Air Force**, the **Air Force Reserve Command (AFRC)**, and the **Air National Guard (ANG)** play an ever more important role in fulfilling the total Air Force mission of defending the United States through control and exploitation of air and space.

This demands that there is one Air Force, well equipped and efficiently organized to execute its responsibilities as defined in the Air Force’s vision of the 21<sup>st</sup> Century, Global Engagement. To actualize this vision, to turn it into reality, the Air Force needs to leverage its core competencies of: **Air and Space Superiority, Global Attack, Rapid Global Mobility, Precision Engagement, Information Superiority, and Agile Combat Support**. The Air Force needs to seamlessly weave the Active Duty, Reserve, and Guard forces into one total force, performing as one force. The Reserve Component, the Air Force Reserve Command and Air National Guard, specifically contribute to these core competencies now. For example, the ANG operate B-1 bombers in support of Global **Attack** and 60% of wartime combat logistics support comes from AFRC - - a significant part of **Agile Combat Support**.

The Reserve Component is not just there to be called upon and “brought up to speed” when a crises or conflict breaks out--it is an indispensable part of the Air Force’s day-to-day readiness. In fact, over half of the strategic airlift and tanker crews are provided by the Reserve Component --a definite contribution to **Rapid Global Mobility**. They provide the tiered readiness required in today’s environment of shrinking military resources and expanding, worldwide commitments.



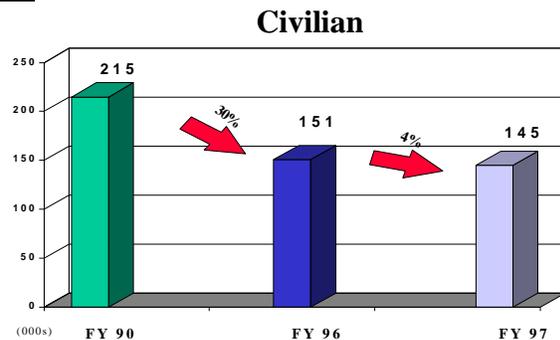
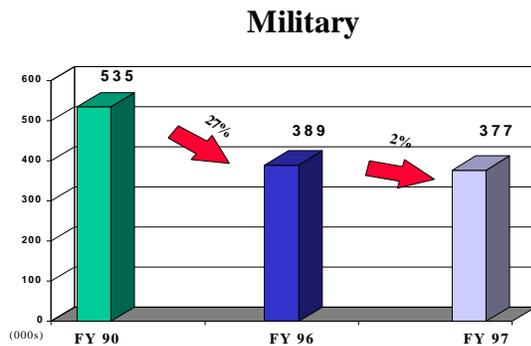
# ACCOMPLISHING THE MISSION

*To accomplish its mission and fulfill its core competencies, the Air Force depends on: PEOPLE, PLACES, WEAPONS, and the FUNDING to pay for them.*

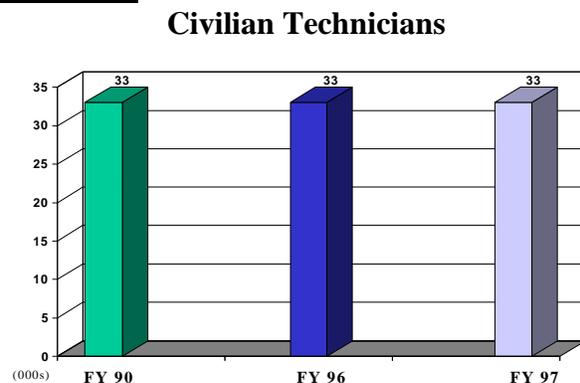
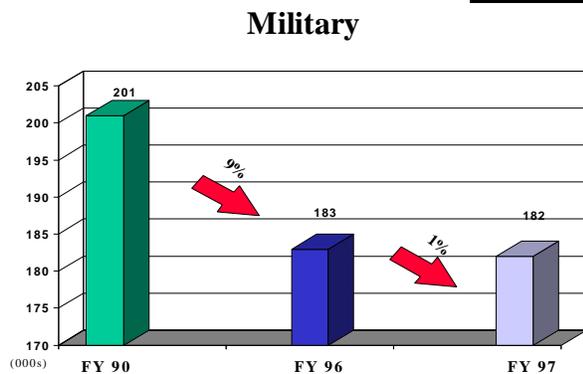
## PEOPLE

The Air Force speaks of "force multipliers" that increase its firepower -- those things that give it "more bang for the buck". In the people area, this "force multiplier" is the set of *core values* our people live by: *"Integrity First, Service Before Self, and Excellence in All We Do"*. These core values provide a synergistic effect whereby the results of their collective efforts are truly greater than the sum of each individual effort. This synergism enables the Air Force to continue to accomplish its expanding roles and missions during a time of shrinking human resources, both military and civilian. In the final analysis *quality people define the Air Force*.

### Active



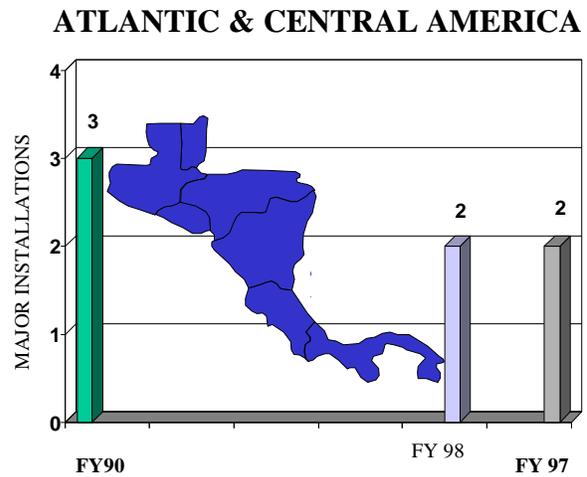
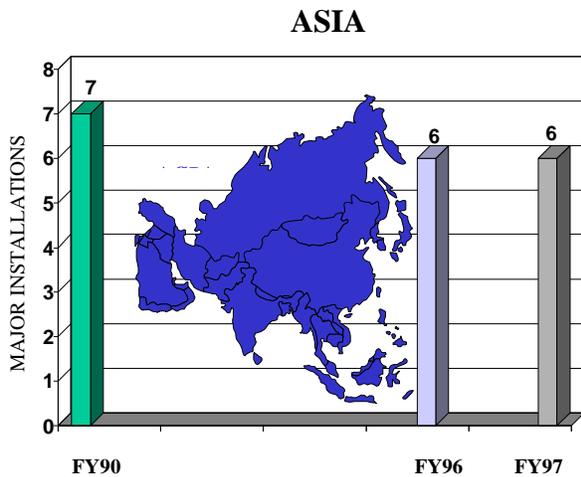
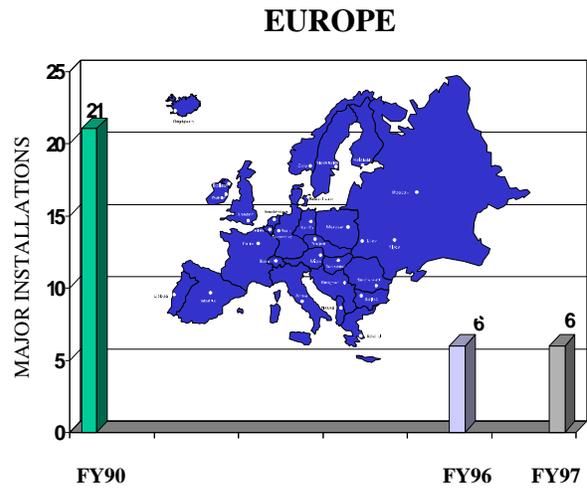
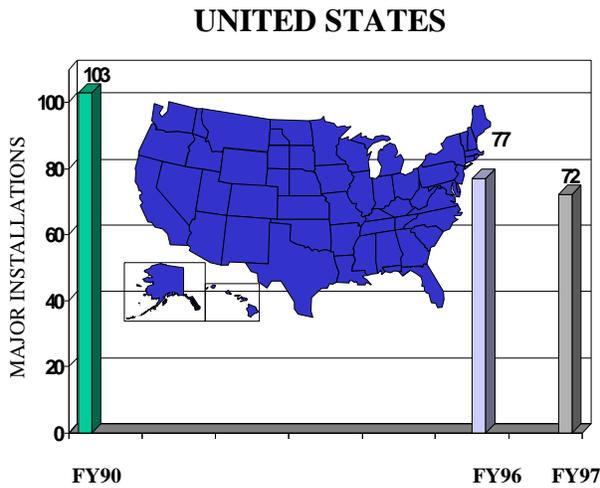
### Reserve/Guard Forces



While the cuts in the Reserve Forces (8% - FY90 to FY 97) have not been as severe as the Active Forces (30% - FY90 to FY97) it must be noted that many active duty missions/taskings have migrated to the Reserve Forces since FY90.

PLACES

The shift in our Nation’s strategy from one of containment to deployment is evidenced by the significant decrease (36%) in Air Force installations, especially in the European theater, during the past seven years.



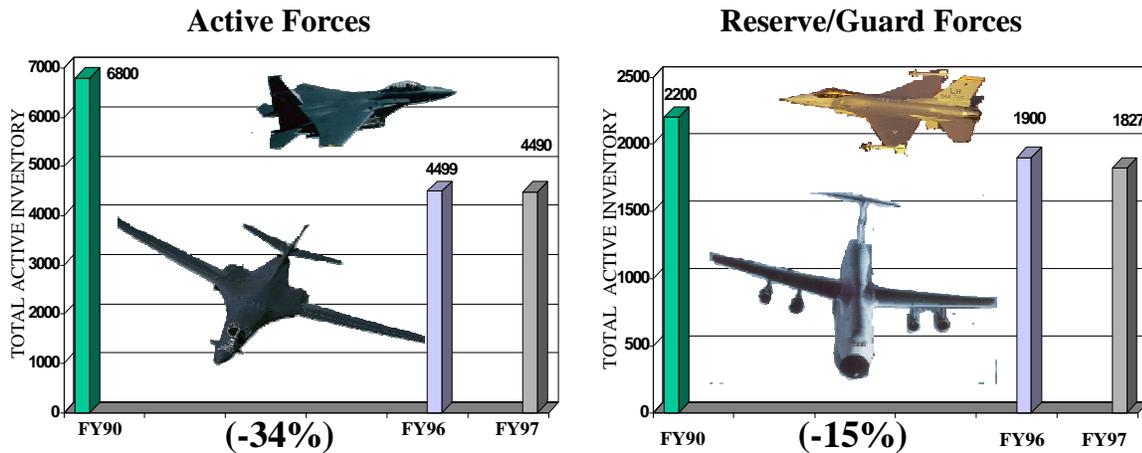
While the Air Force has closed a significant number of installations, there is still **need to make more infrastructure reductions**. Money is being wasted on keeping excess bases open. We need to balance the distribution of our resources between operations and support. The Air Force therefore supports the request by the Secretary of Defense for two additional base realignment and closure (BRAC) rounds.

# Overview

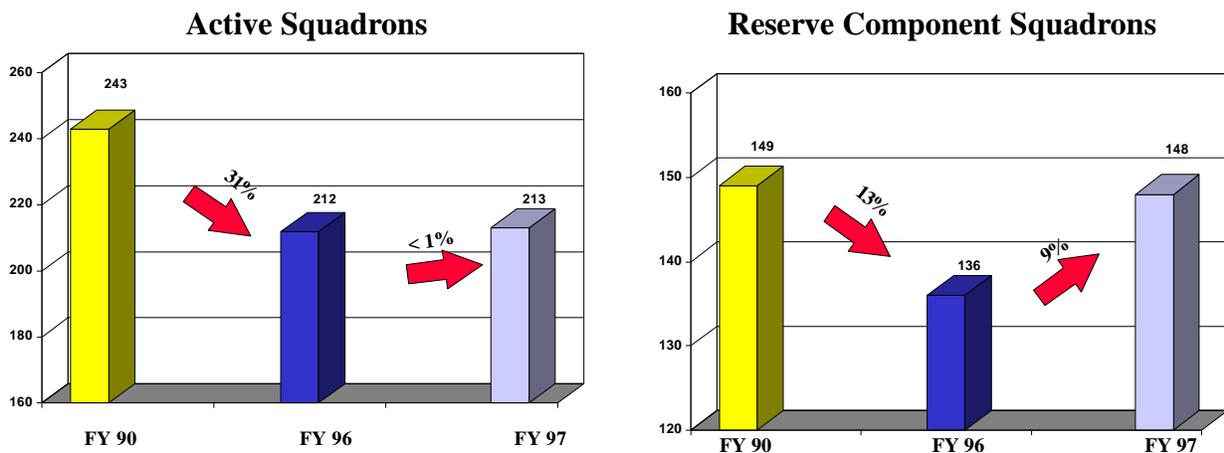
## WEAPONS

The Air Force has historically relied on high-level technology to offset the numerical superiority of its potential adversaries. The significant decline in the number of aircraft since the end of the Cold War, coupled with a desire to achieve victory with minimum casualties, has further highlighted the importance of exponentially expanding the Air Force's existing technological advantage over potential adversaries.

## AIRCRAFT



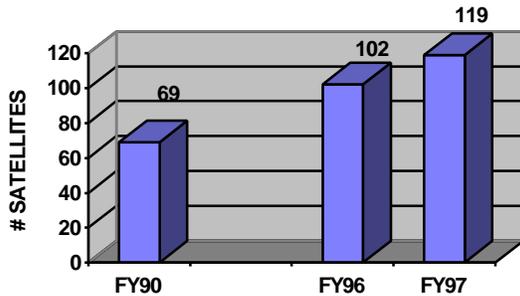
This decline in aircraft is mirrored in the decline of flying squadrons, except in the case of the Reserve Component. This reflects the relative growth of the Reserve Component in assuming more and more of the total force responsibilities.



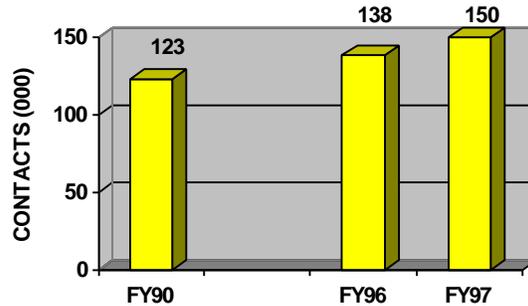
**SATELLITES**

While aircraft are declining, the Air Force is increasing its space assets and their use, as it moves towards becoming an Air and Space Force.

**Satellites On Orbit**



**Satellite Contacts**



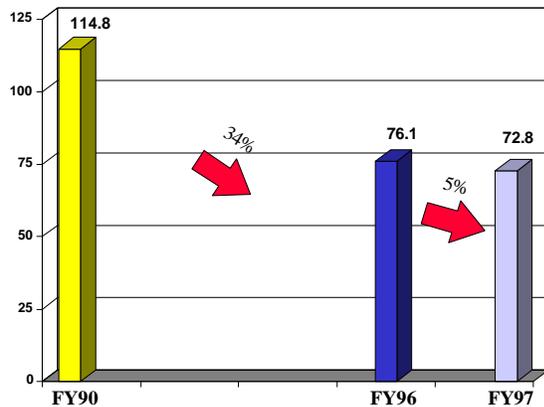
*Note: There were 44 launches (1 failure) in FY97.*

**FUNDING**

The force reductions after the end of the Cold War are shown by the resulting decline in funding.

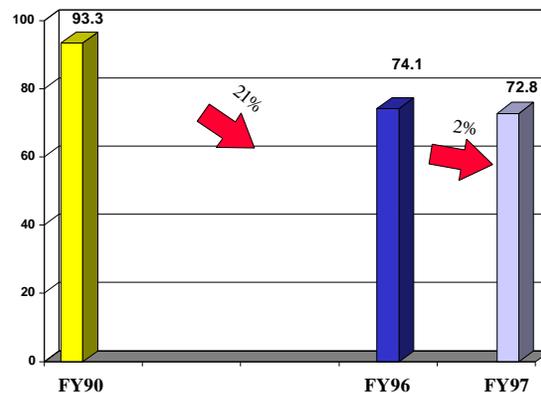
**AIR FORCE GENERAL FUND BUDGET AUTHORITY**

**Constant Year Dollars**  
(in Billions)



Constant (real) Dollars: (Adjusted for inflation (i.e., the programmatic changes are not distorted by inflation))

**Current Year Dollars**  
(in Billions)

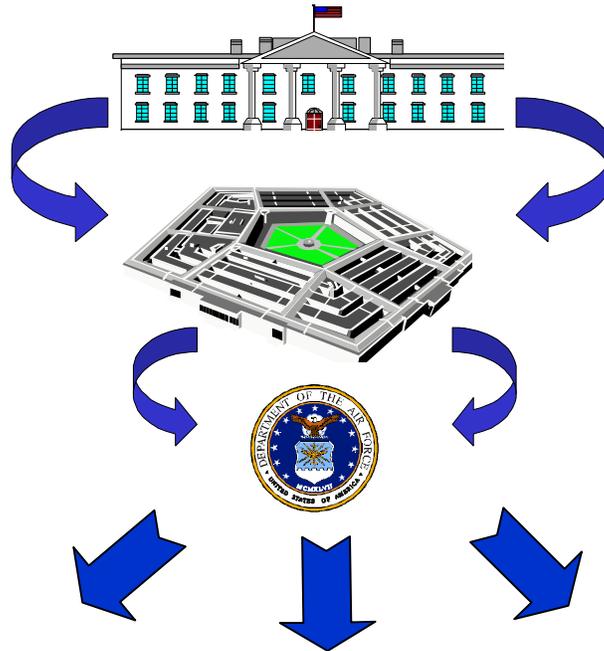


Current (then-year) Dollars: (Not adjusted for inflation (i.e., rate of inflation distorts and understates the programmatic effect of funding changes))

# AIR FORCE ORGANIZATION

The command line of the Air Force flows from the President & the National Command Authority to the Secretary of Defense to the Department of the Air Force. The Air Force is headed by a Secretary of the Air Force (SECAF), with the Chief of Staff reporting to the Secretary.

Immediately subordinate to the departmental headquarters are these categories of organizations: Major Air Commands, Field Operating Agencies, and Direct Reporting Units.



**Major Air Commands** are assigned a major portion of the Air Force Mission. This division is made primarily as to operational and support. Within the operational commands, the divisions are generally based on purpose or location (e.g., combat; movement of people and supplies; Pacific and European theaters). The support commands generally are organized as to function (e.g., logistic, support, training, etc.) They are directly subordinate to HQ USAF. Approximately 85% of active duty military are assigned to a Major Air Command.

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

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

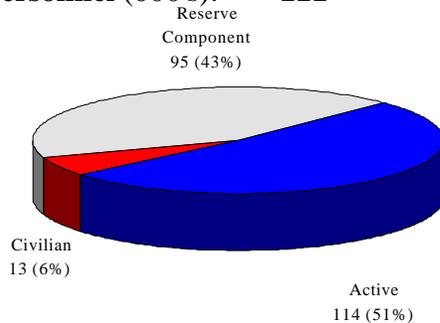
## MAJOR COMMANDS



### Air Combat Command (ACC)

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

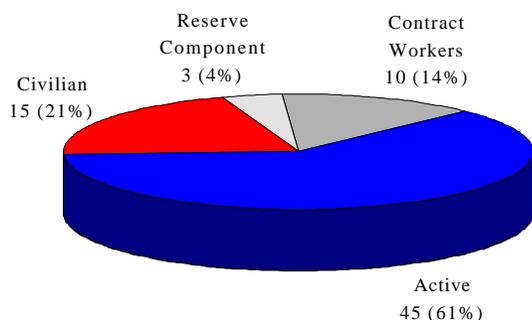
**Commander:** General Richard E. Hawley  
**Headquarters:** Langley AFB, VA  
**1997 Budget:** \$8,716,234,000  
**Personnel (000's):** 222



### Air Education and Training Command (AETC)

**Mission:** Air Education and Training Command, through its various subordinate organizations, recruits, accesses, commissions, trains, and educates Air Force officers and enlisted members. The command provides basic military training, officer training, initial and advanced operations training, flying training, and the full spectrum of professional military education, as well as degree-granting programs. AETC provides joint medical service and readiness training and also security assistance training and education to certain foreign nations.

**Commander:** General Lloyd W. Newton  
**Headquarters:** Randolph AFB, TX  
**1997 Budget:** \$4,983,230,000  
**Personnel (000's):** 73



# Overview

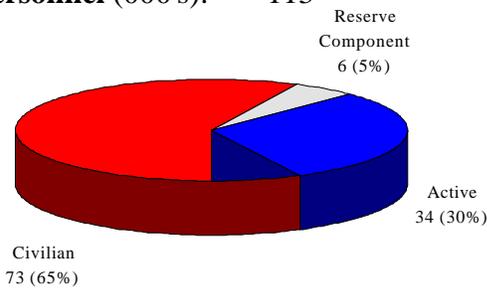
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## Air Force Materiel Command (AFMC)

**Mission:** Air Force Materiel Command, through integrated management of research and development, test, acquisition, and support, advances and uses technology to acquire and sustain superior systems in partnership with its many customers and suppliers. AFMC performs continuous product and process improvement throughout the product or system life cycle. Also, as an integrated part of the Nation's aerospace war fighting team, the command contributes to affordable combat superiority, readiness, and sustainability.

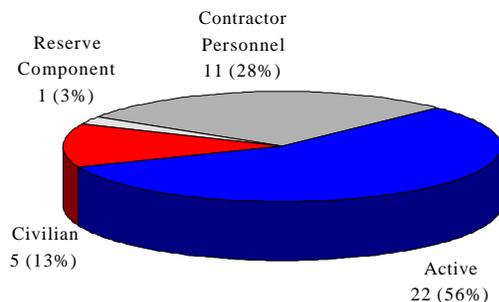
**Commander:** General George T. Babbitt  
**Headquarters:** Wright-Patterson AFB, OH  
**1997 Budget:** \$15,909,037,000  
**Personnel (000's):** 113



## Air Force Space Command (AFSPC)

**Mission:** Air Force Space Command's two-fold mission includes space and ballistic missile operations. The space mission covers ballistic missile warning, space control, spacelift, and satellite command and control. Ballistic missile operations include two intercontinental ballistic missile (ICBM) systems, Minuteman II and Peacekeeper. AFSPC also supports the war fighter by providing weather data, communications, and intelligence through various space and land-based sensors.

**Commander:** General Howell M. Estes III  
**Headquarters:** Peterson AFB, CO  
**1997 Budget:** \$2,842,543,000  
**Personnel (000's):** 39

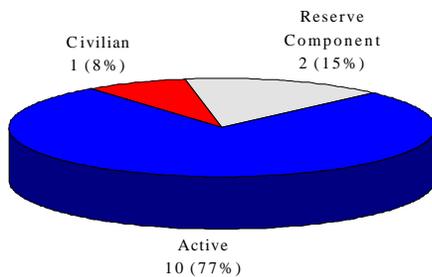




### Air Force Special Operations Command (AFSOC)

**Mission:** Air Force Special Operations Command provides forces to conduct unconventional warfare, direct action, special reconnaissance, foreign internal defense, combating terrorism, psychological operations, counter-proliferation, civil affairs, and information operations. AFSOC assigns and deploys trained and equipped forces to unified commands worldwide.

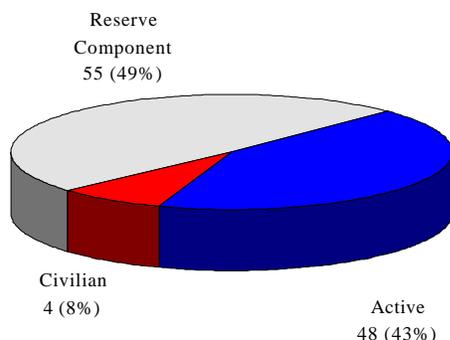
**Commander:** Major General Charles R. Holland  
**Headquarters:** Hurlburt Field, FL  
**1997 Budget:** \$519,287,000  
**Personnel (000's):** 13



### Air Mobility Command (AMC)

**Mission:** Air Mobility Command is a trained, equipped, and ready total force team - - the foundation of the Air Force's Global Engagement and Global Power strategic architecture. AMC's capability to project and sustain forces worldwide is unique to the United States. The command provides safe, timely, cost-effective, and reliable airlift, air refueling, aeromedical evacuation, and disaster relief for its customers throughout the world.

**Commander:** General Walter Kross  
**Headquarters:** Scott AFB, IL  
**1997 Budget:** \$4,571,247,000  
**Personnel (000's):** 107



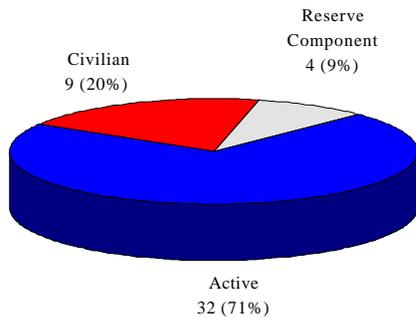
# Overview



## Pacific Air Forces (PACAF)

**Mission:** Pacific Air Forces plan, conduct, and coordinate offensive and defensive air operations in the Pacific and Asian Theaters. PACAF trains, equips, and organizes forces to support tactical operations in support of the responsible regional unified command. The command's area of responsibility covers over half the earth's surface.

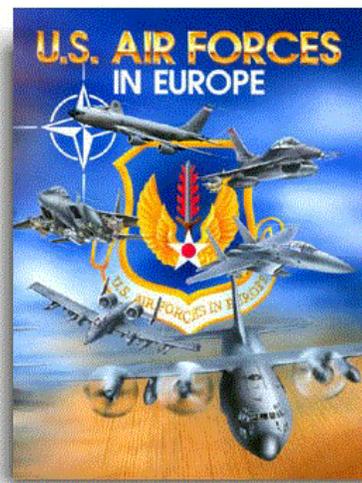
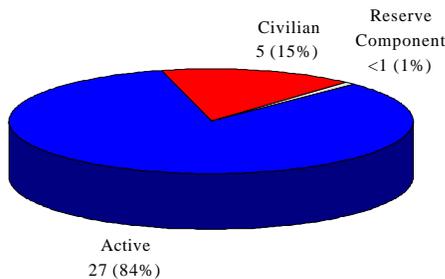
**Commander:** General Richard B. Myers  
**Headquarters:** Hickam AFB, HI  
**1997 Budget:** \$2,679,999,000  
**Personnel (000's):** 45



## United States Air Forces in Europe (USAFE)

**Mission:** United States Air Forces in Europe plan, conduct, and coordinate air operations in support of the United States European Command (USEUCOM) and the North Atlantic Treaty Organization (NATO). USAFE provides a strong forward presence in the European Theater to carry out offensive and defensive operations, as well as peacekeeping and humanitarian missions.

**Commander:** General John G. Jumper  
**Headquarters:** Ramstein AB, Germany  
**1997 Budget:** \$2,488,847,000  
**Personnel (000's):** 33



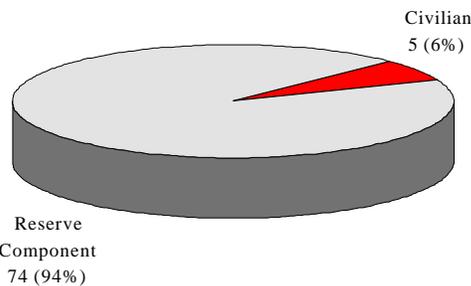
## AIR RESERVE COMPONENT



### Air Force Reserve Command (AFRC)

**Mission:** Air Force Reserve Command, the Air Force’s newest major command, ensures that its units and individual members are organized, trained, equipped, and ready to carry out their assignments as part of the total Air Force and national objectives. AFRC is a very active player in day-to-day, worldwide Air Force operations.

**Commander:** Major General Robert A. McIntosh  
**Headquarters:** Robins AFB, GA  
**1997 Budget:** \$2,324,327,000  
**Personnel (000's):** 79\*



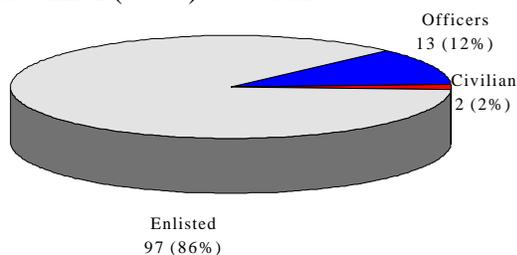
(\*While there are some active duty personnel assigned to AFRC, mostly at the HQ level, for all practical purposes the operational missions of the command are carried out by AF Reserve personnel who fall into two primary categories: members of the Selected Reserve, who train regularly; and Air Reserve Technicians (ARTs), who have dual civil service and military reserve status. ARTs provide the day-to-day continuity in reserve operations.)



### Air National Guard (ANG)

**Mission:** The Air National Guard is not a major command of the Air Force. The ANG is a separate federal / state organization, which, like the AFRC, is a vital part of the Air Reserve Force (ARF) and a major contributor to the total Air Force. The ANG provides organized, trained, equipped, and ready forces to the Air Force to carry out operations worldwide.

**Director:** Major General Donald W. Shepperd  
**Headquarters:** Washington, DC  
**1997 Budget:** \$4,320,101,000  
**Personnel (000's):** 112

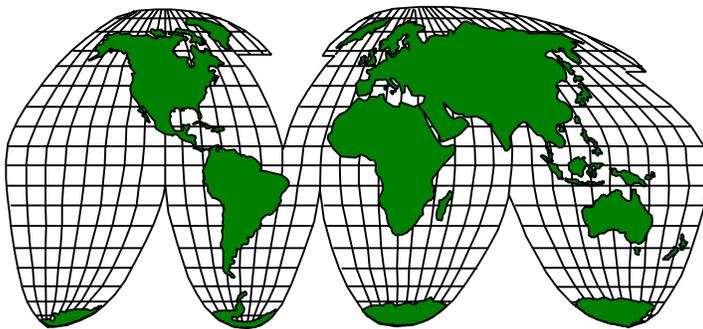


# AIR FORCE IN ACTION

While the Air Force has committed to making the vision of Global Engagement an actuality through the Air Force's Long Range Plan (LRP), it has not lost sight of the fact that the Air Force has important primary responsibilities in *the real world – right now*.

## SIGNIFICANT 1997 OPERATIONS

- **Operation Joint Guard.** This NATO led coalition has maintained peace in Bosnia-Herzegovina. Since the start of operations in 1996, the Air Force has deployed over 2,500 personnel and flown over 3,000 missions - - 25% of the coalition total.
- **Operation Southern Watch.** Enforcement of the “no-fly zone” over southern Iraq has fluctuated over time depending on Iraqi activity and the perceived threat. The Air Force has had over 130 aircraft and over 6,900 personnel deployed since 1992. It has flown over 100,000 sorties - - 69% of the coalition total.
- **Operation Northern Watch.** In January 1997, the UN established Operation Northern Watch, which was a continuation of the previous operation Provide Comfort. To enforce this “no-fly zone” north of 36°N in Iraq, the Air Force committed over 30 aircraft, deployed approximately 1,000 personnel, and has flown about 2,000 sorties.
- **Evacuations:** Throughout 1997, the Air Force supported various non-combatant evacuation operations:



- BEVEL EDGE – Cambodia
- SILVER WAKE – Albania
- GUARDIAN RETRIEVAL – Former Zaire

- **Air Force Expeditionary Force (AEF) Deployments.** An AEF consists of fighters, tankers, attack airplanes, and other types of aircraft that deploy overseas for a limited time to provide a deterring presence and to conduct actual combat operations, if needed. This quick response, highly capable lethal force gives theater and joint force commanders a flexible deterrence option. Since 1995, AEFs have deployed to Jordan, Qatar, and twice to Bahrain. In late 1997, AEF- V deployed with bombers, thus significantly increasing its firepower. The AEF is *the flexible firepower option* for the future.

- **Cooperative Engagement.** The changing nature of modern warfare, along with the world's shifting political environment requires a reassessment of post Cold War strategies. The Air Force has recognized the need for increased use of the military capabilities of its friends and allies. One of the primary means of deepening its relationship with militaries of other countries is active participation in the Partnership for Peace (PfP) program. In 1997, the Air Force participated in over 20 exercises with about 25 PfP countries. A shining example of a joint exercise was CENTRAZBAT 97, a combined exercise consisting of forces from the U.S., Russia, Kazakstan, Uzbekistan, Kyrgyzstan, and Turkey. U.S. Air Force participation included eight C-17s providing 7,800 miles of non-stop transportation, and the air drop of troops and equipment from Fort Bragg, N.C. to Central Asia. This was the *world's longest airdrop mission* – a perfect example of the core competency of *Rapid Global Mobility*.
- **Counter Drug Operations.** The Air Force continues to play a major role in the fight against illicit drug trade:
  - AWACS and ground surveillance radar monitor known and suspected drug traffic and source zones
  - ANG fighter aircraft routinely identify drug smuggling aircraft
  - Air Force Reserve aircraft and personnel support drug enforcement agencies by providing imagery, transportation, and intelligence analysis

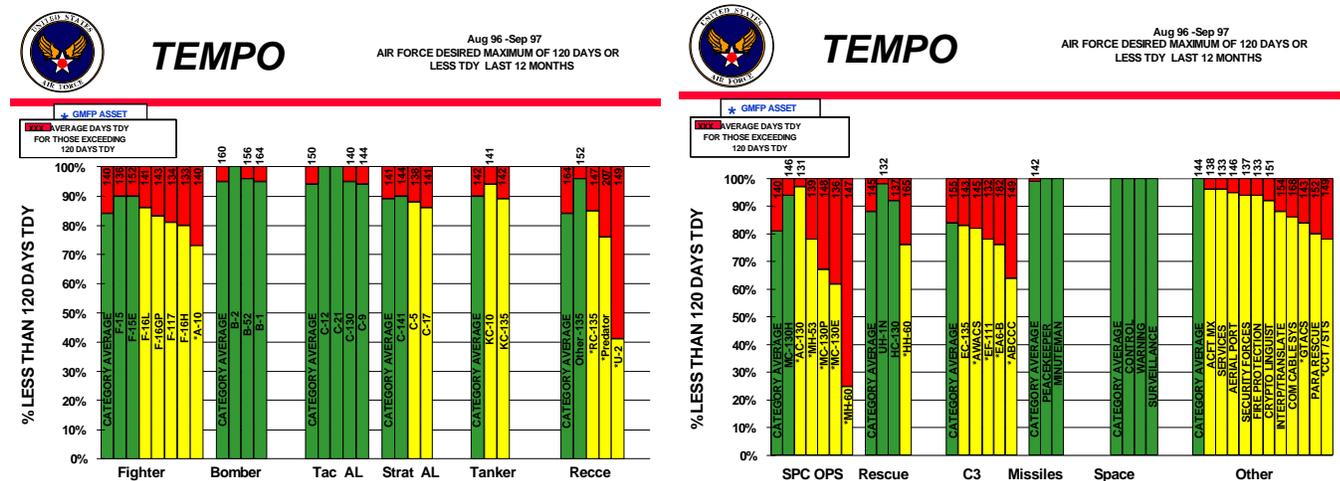


## AIR FORCE TEMPO

Today’s Air Force is an expeditionary Air Force confronted with an increasing variety of operations, challenged with reduced resources and the need to maintain the highest standards of readiness. Personnel tempo (PERSTEMPO) measures our people’s contributions. It’s linked to readiness and quality of life. The objective is to maintain a reasonable TEMPO that balances the needs of the Air Force mission with the quality of life of Air Force people.

The Air Force defines PERSTEMPO as days per year an individual is performing temporary duty (TDY) away from home station. It includes all TDY reasons, lengths, and locations. Simply stated, “A day away is a day away.” Air Force people expect some TEMPO doing contingency operations, JCS Exercises, and Air Force operational training.

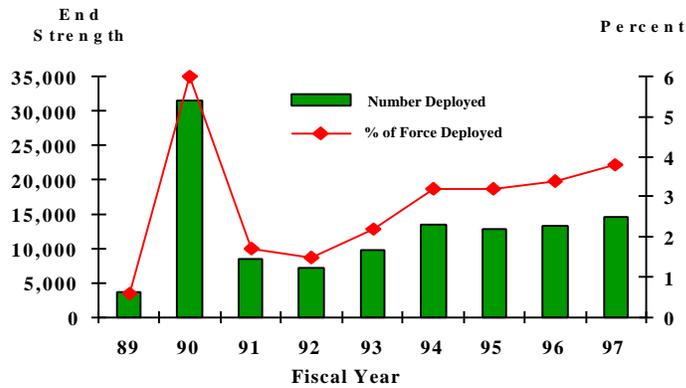
Primarily focused on aggregate systems and skills, our management efforts over the past three years have proven effective in reducing tempo in the most highly stressed areas, but since certain systems, skills, and individuals still exceed the desired maximum, efforts are ongoing.



TEMPO charts include weapon systems, grouped by Joint Monthly Readiness Review (JMRR) Categories and skills in one other category. The Air Force has taken a number of initiatives to manage TEMPO, but some systems and skills will always have a number of personnel above the 120 day desired maximum in a 12-month period. Currently shown on these charts are personnel from 24 JMRR weapon systems out of a possible 48 and personnel from 11 other skills (Non-JMRR) out of over 700 possible AFSCs.



# PERSONNEL DEPLOYED



- *Three methods to reduce impact of deployments*
  - *Spread taskings AF wide*
  - *Use ANG/USAFR*
  - *Challenge taskings*
- *Focusing on members and families back home*
  - *Adding Readiness NCOs to Family Support Centers*

Contributing factors to increased TEMPO: four times as many AF people deployed today as in 1989; 66% less permanent change of station forward basing than in 1989; and 37% less end-strength today than when the drawdown began.



# MANAGEMENT INITIATIVES

## RESPONSIBLE STEWARDSHIP

The Air Force is committed to responsible stewardship of the resources the public entrusts to it, as well as to the environment and to its bases.

GOALS	ACTIONS
<p><b>Financial Reform</b></p> <p><i>The Air Force is a leader in the financial reform arena.</i></p> <p><i>(Note: Financial Reforms are discussed in more detail in the Financial Management Reform sub-section of this document.)</i></p>	<ul style="list-style-type: none"> <li>• Progressing towards compliance with the Government Performance and Results Act (GPRA). The Air Force is developing GPRA output measures and has already incorporated some of these measures into the Air Force CFO Financial Statements</li> <li>• The Air Force CFO Financial Statements are being improved to give commanders better information and to render the statements auditable</li> <li>• The Air Force, along with the Defense Finance and Accounting Service (DFAS), have an aggressive program underway to improve its financial systems</li> </ul>
<p><b>Prompt Payment Act (PPA) Compliance</b></p> <p><i>The Air Force and DFAS-DE work jointly toward reducing the number and dollar value of interest penalty payments. Both the need to improve public confidence in the disbursement of funds and the need to make these funds available for higher priority requirements makes this an important goal.</i></p>	<ul style="list-style-type: none"> <li>• During FY 97, 95.9 % of the 1,529,747 PPA payments were processed on time. Approximately \$11.1 billion worth of invoices were paid on time. 63,366 invoices were paid late, resulting in interest penalty payments of slightly over \$3 million</li> <li>• Examples of actions to reduce late payments include: vendor pay reinvention; aggressive follow-up action to obtain receiving reports; training in pay processes; and meetings with support organizations to stress the need for the timely processing of receiving reports</li> </ul>

<p><b>Base Closures/Realignments</b></p> <p><i>The Air Force continues to help communities impacted by base closure/realignments by converting these facilities into uses that have maximum positive economic impact.</i></p>	<ul style="list-style-type: none"> <li>• In 1997, the Air Force completed Economic Development Conveyances (EDC's) for property at six bases -- for example, the EDC relating to Kelly AFB was implemented within two years after its realignment plan was announced</li> <li>• The Air Force became the first military service to take advantage of an amendment to Superfund law when it transferred Grissom AFB to the private sector prior to full completion of environmental clean-up</li> </ul>
<p><b>Environmental Restoration and Compliance</b></p> <p><i>The Air Force's emphasis on environmental compliance, restoration, and conservation makes it a "good neighbor" which helps it preserve its access to ranges, air space, and installations with a minimum of adverse public criticism.</i></p>	<ul style="list-style-type: none"> <li>• Knowledge and obedience of environmental laws and regulations have resulted in a dramatic reduction of open enforcement action against the Air Force -- from 263 in 1992, to only 16 in 1997</li> <li>• The allocation of sufficient funding allowed the environmental restoration program to maintain its 1997 clean up schedule at all contaminated sites</li> <li>• Partnerships with governmental and non-governmental organizations are fostering biodiversity and integrated ecosystem management at many installations</li> </ul>

**PEOPLE FIRST**

Over the past few years, the Air Force has worked towards a set of personnel goals focused on creating an environment where our people could perform at their best.

GOALS	ACTIONS
<p><b>Fair &amp; Equitable Compensation</b></p> <p><i>Pursue fair and equitable compensation and benefits that keep pace with inflation and private sector wage growth, within the confines of current law.</i></p>	<ul style="list-style-type: none"> <li>• Fully-funded pay raise of 3.0% in FY 97</li> <li>• FY 98 National Defense Authorization Bill contains:               <ul style="list-style-type: none"> <li>• 2.8% pay raise and a 33% increase in Family Separation Allowance (FSA)</li> <li>• 36% increase in minimum level of Hazardous Duty Incentive Pay (HDIP)</li> <li>• Authority to increase Aviator Continuation Pay (ACP) 108% for long-term contracts, retroactive to FY 97 contracts</li> </ul> </li> </ul>

## Overview

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<p><b>Mitigate the Impacts of High PERSTEMPO</b></p> <p><i>Balance the impact of high deployment rates.</i></p>	<ul style="list-style-type: none"> <li>• Global sourcing to balance the workload</li> <li>• Increased use of Air Reserve Component</li> <li>• Challenged taskings to reduce demand on stressed systems, such as AWACS, to allow for recovery and training</li> <li>• Established strong family and member readiness-support programs to assist with deployment impacts</li> <li>• Established test ombudsman program at five bases and video links between families and deployed members at many others</li> </ul>
<p><b>Educational Opportunities</b></p> <p><i>Expand educational opportunities and access.</i></p>	<ul style="list-style-type: none"> <li>• Successfully maintaining funding at the 75% cost-of-tuition rate</li> <li>• Converted 61% of eligible AF Veterans Education Assistance Program (VEAP) participants to the increased benefits of the Montgomery GI Bill</li> </ul>
<p><b>Safe, Affordable, and Adequate Housing</b></p> <p><i>Provide access to safe, affordable and adequate housing.</i></p>	<ul style="list-style-type: none"> <li>• Upgraded standards for airman dormitories (#1 housing concern)             <ul style="list-style-type: none"> <li>• Completed first-ever “Dormitory Master Plan” which prioritizes “worst-first” dormitory construction requirements. A roadmap for future investment</li> <li>• Continued programming for the replacement or conversion of all remaining permanent party central latrine dormitories by FY99</li> </ul> </li> <li>• Accomplished critical maintenance and repair to alleviate deteriorating facilities and infrastructure             <ul style="list-style-type: none"> <li>• Applied \$407M to family housing maintenance</li> <li>• Awarded infrastructure projects</li> <li>• Improved housing energy efficiencies</li> <li>• Applied \$108M FY97 Congressional Quality of Life Enhancement plus-up in dormitories. Helped convert 18 central latrine dorms to 1+1</li> </ul> </li> <li>• Implemented “whole house/whole neighborhood” concept for family housing             <ul style="list-style-type: none"> <li>• Constructed and revitalized a total of 2,425 housing units</li> <li>• Invested \$317M to improve quality of life for Air Force families</li> <li>• Awarded 90% of our program in the year of appropriation -- rapidly delivered revitalized houses for our people</li> </ul> </li> </ul>

## Base and Community Programs

*Improve morale and welfare.*

- Improved the fitness program
  - Increased program emphasis resulted in a steady increase in the number of members passing the test
- Improved child care services
  - Increased the number of child care spaces--presently meeting 57% of the requirements
  - Expanded school age care
- Expanded library access through automation
  - Increased the percentage of libraries that have:
    - On-line/external access
    - More than 5 computers with direct print capability
    - Auto search systems that allow patrons to do research without going to the library shelves
  - All library PCs have CD ROMs



***BUSINESS PROCESS REFORM***

As part of its efforts to achieve a revolution in business affairs, the Air Force is now implementing long-term, strategic business planning to ensure continuous business process improvement becomes our cultural norm. Key Air Force leaders responsible for accomplishing and supporting acquisition and sustainment have joined together to move toward better business practices and continuous process improvement. The challenge is to provide technologically advanced world-class systems, within a fiscally constrained environment. ***The Air Force must not reduce costs at the expense of mission capability--costs must be reduced by increased efficiencies.*** Some examples of this vision and commitment of the Air Force leadership are:

GOALS	ACTIONS
<p><b>Outsourcing &amp; Privatization</b></p> <p><i>Achieve best values through public/private sector competitions.</i></p>	<ul style="list-style-type: none"> <li>• Identified 50,000 additional positions for competition over the next six years--twice the entire historical execution since 1979</li> <li>• Conducted privatization feasibility study on:               <ul style="list-style-type: none"> <li>• Renovating/replacing over 7,200 family housing units</li> <li>• Divestiture of utilities plants at selected locations</li> </ul> </li> <li>• Recognized savings have been earmarked for Air Force readiness and modernization accounts</li> </ul>
<p><b>Partnership with Industry</b></p> <p><i>Break down the sometimes adversarial relationships that have existed in the past.</i></p>	<ul style="list-style-type: none"> <li>• Initiated a policy of more open communication with private industry</li> <li>• Helped industry increase its understanding of Air Force mission and affordability requirements--resulted in innovative and more affordable business solutions</li> </ul>
<p><b>Commercial Off The Shelf (COTS)</b></p> <p><i>Increase the use of current commercial products, processes, and practices.</i></p>	<ul style="list-style-type: none"> <li>• Converted 17 percent of military product specifications to commercial item descriptions or non-government standards</li> <li>• Established a Market Research Working Group to define commercial market research techniques</li> <li>• Prepared a COTS Handbook to aid in identifying and procuring commercial items</li> </ul>
<p><b>Lean Logistics</b></p> <p><i>Integrate and apply state-of-the-art business practices across all logistics functions and processes.</i></p>	<ul style="list-style-type: none"> <li>• Used high-velocity, time-definite supply and delivery processes instead of large inventories</li> <li>• Achieved shorter cycle times, reduced inventories and costs, and a smaller mobility footprint</li> <li>• Implemented “Just in Time”, not “Just in Case”</li> </ul>

**ACQUISITION REFORM**

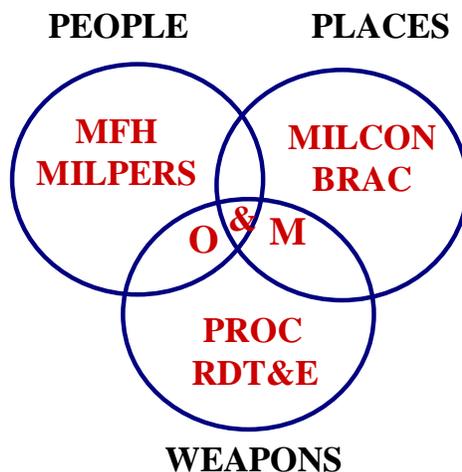
The Air Force continues to implement a leaner, more agile acquisition and sustainment system. Jump-starting this change via “Lightning Bolt” initiatives was the important first step. The initiatives have led to dozens of documented success stories with more coming in all the time. Acquisition Reform has successfully resulted in \$18.9B in combined cost savings and avoidance. These acquisition reform initiatives result in lower cost weapon systems, smaller acquisition staffs, and dramatically reduced paperwork. Some examples include:

<p><b>Advanced Medium-Range Air-to-Air Missile (AMRAAM)</b></p>	<ul style="list-style-type: none"> <li>• Reliability is at an all time high (400% of warfighter’s requirement)</li> <li>• Delivery schedule reduced by 2 months</li> <li>• Prices slashed by 56% over the last 6 years</li> </ul>
<p><b>B-1B Defensive System Upgrade Program (DSUP)</b></p>	<ul style="list-style-type: none"> <li>• Produced an affordable, quality approach to systems design that meets customers’ needs, while dramatically reducing system complexity and costs</li> <li>• Projected savings of annual operating costs are \$20M per year</li> </ul>
<p><b>C-26 Contractor Logistics Support (CLS) Follow-on Acquisition</b></p>	<ul style="list-style-type: none"> <li>• Program office deleted all military standards and specifications from their Request for Proposal</li> <li>• Reduced Contract Data Requirements List (CDRL) items from 22 to 4</li> <li>• Reduced proposal evaluation time</li> <li>• Result was a cost avoidance of \$33.4M</li> </ul>
<p><b>Joint Standoff Weapon (JSOW)</b></p>	<ul style="list-style-type: none"> <li>• Streamlining reduced the contract size by 76%</li> <li>• Shortened contracting lead time by a factor of 3</li> <li>• Saved \$100M of RDT&amp;E funds</li> </ul>
<p><b>NAVSTAR Global Positioning System (GPS)</b></p>	<ul style="list-style-type: none"> <li>• Consolidated six ground control contracts into one, saving over \$80M</li> <li>• Used best commercial practices and performance-based specifications to reduce cycle time for the next block of GPS satellites from 7 to 5 years</li> <li>• Projected program reduction: \$1B (\$181M savings, \$821M cost avoidance)</li> </ul>

The Air Force has made a firm commitment to establish performance targets, track resources and hold people at all levels accountable for reaching these targets. The foundation has been laid for increasing combat effectiveness through acquisition reform and business process improvements. The Air Force must continue to build on this foundation to generate cost savings that can be applied to the modernization and sustainment of our combat forces.

## FINANCIAL HIGHLIGHTS

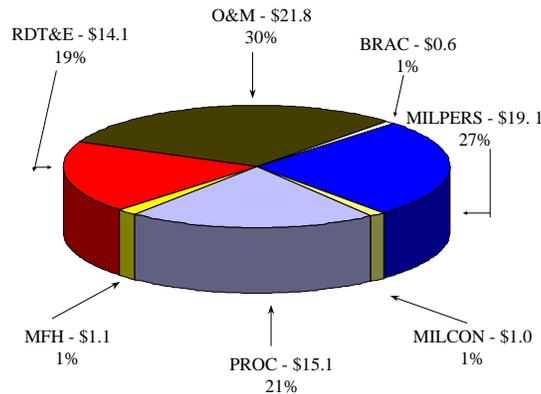
As the budgetary resources statement shows, in the Principal Statements Section, the Air Force budget in 1997 was \$72.8 billion. The Air Force FY97 budget was composed of different programs, which can be related to the PEOPLE who perform the mission, the WEAPONS they use to perform the mission, and the PLACES from which they perform the mission.



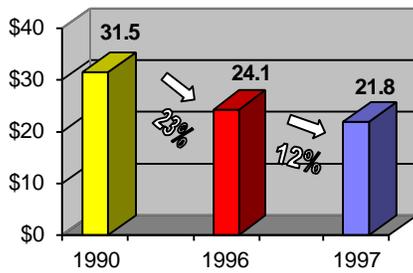
APPROPRIATION	PRIMARY PURPOSE	\$ AMOUNT IN BILLIONS
Military Family Housing (MFH)	Used for construction & maintenance of living quarters for military personnel	<b>1.1</b>
Military Personnel (MILPERS)	Payment of military personnel	<b>19.1</b>
Military Construction (MILCON)	Construction of military facilities that have an extended life	<b>1.0</b>
Procurement (PROC)	Purchase of “capital” expenditure items vs. “expense” type items	<b>15.1</b>
Research, Development, Test, & Evaluation (RDT&E)	Development of new weapon systems technologies	<b>14.1</b>
Operations & Maintenance (O&M)	Used for day-to-day operations of our bases (heat, light, supply items of an expense nature, etc.) and the pay of civilian employees	<b>21.8</b>
Base Realignment & Closure (BRAC)	Used to pay for the cost of reducing Air Force infrastructure through the closing of bases and realigning units	<b>.6</b>
<b>TOTAL</b>		<b>72.8</b>

### FUNDS DISTRIBUTION

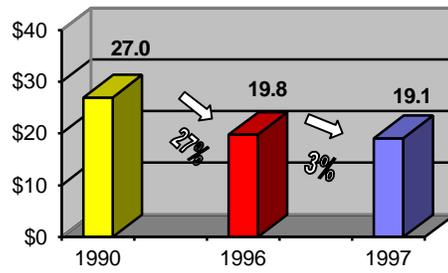
(In Billions)



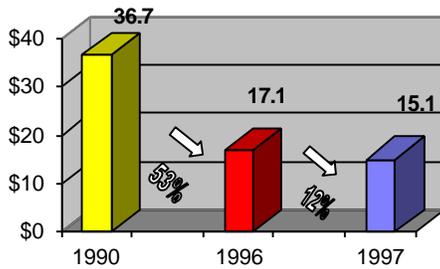
**O&M**



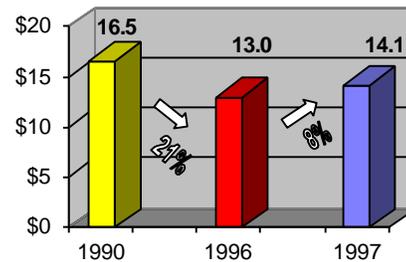
**MILPERS**



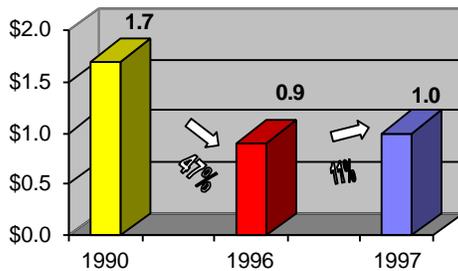
**PROCUREMENT**



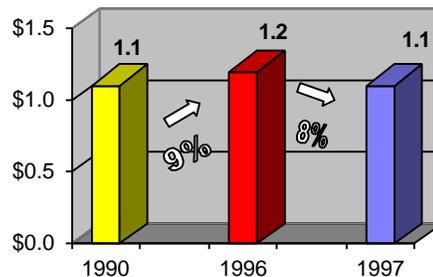
**RDT&E**



**MILCON**



**MFH**



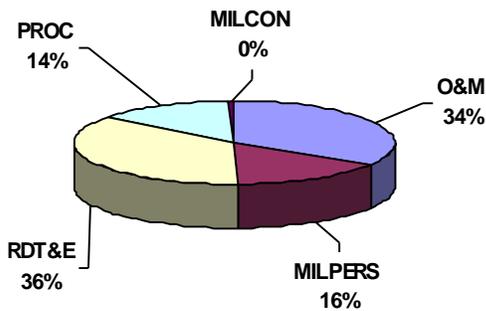
(Note: BRAC chart not shown. Amounts shown are in constant dollars).

# Overview

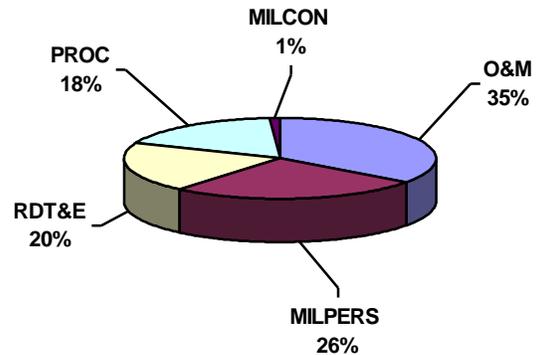
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In addition to presenting its budget in the traditional appropriation and program structure format, the Air Force has given a broad overview of its budget in terms of its *Core Competencies*. This recognizes that these core competencies of *Air and Space Superiority*, *Global Attack*, *Precision Engagement*, *Rapid Global Mobility*, *Information Superiority*, and *Agile Combat Support* are the foundation upon which the Air Force builds the pathways to the fulfillment of its vision for the 21<sup>st</sup> Century, *Global Engagement*. (Note: The following data shows what portion of the activity related to a core competency is funded by specific appropriations.)

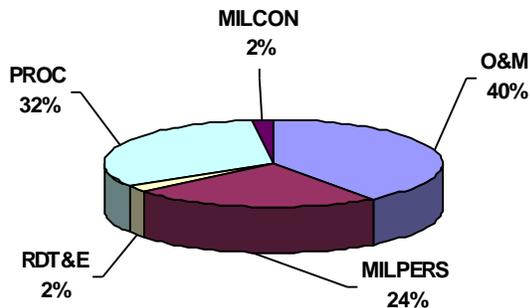
## Air & Space Superiority



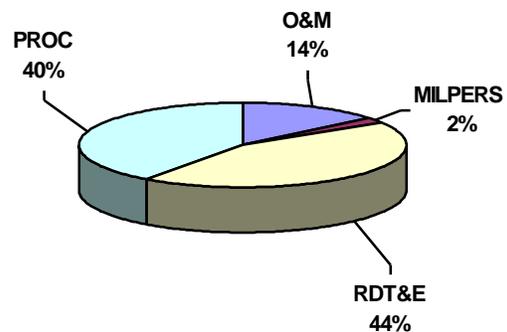
## Global Attack



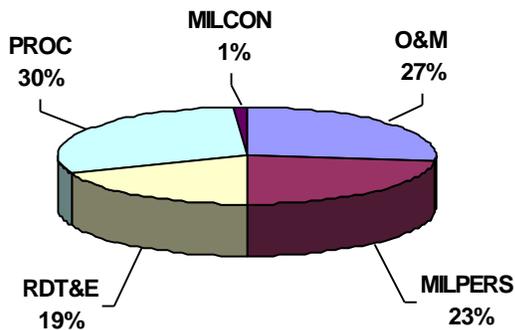
## Rapid Global Mobility



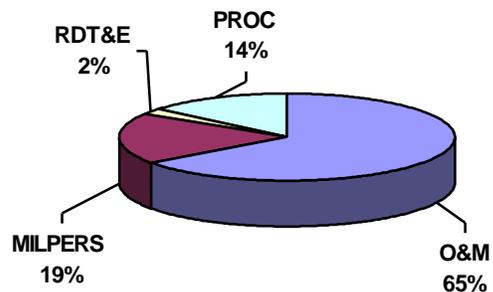
## Precision Engagement



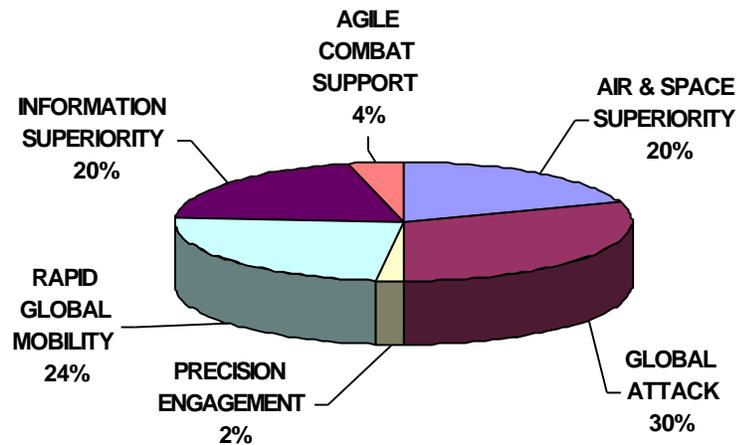
## Information Superiority



## Agile Combat Support



**TOTAL “BLUE AIR FORCE”  
by Core Competency**



*(Note: Total Blue Air Force = TOA, less the National Foreign Intelligence Program, Special Operations Command, and Defense Health Program. In this depiction, funds related to “infrastructure” have not been included in the above comparison.)*



## **FINANCIAL MANAGEMENT REFORM**

The Air Force intends to remain a leader in financial reform. This section outlines results achieved during 1997 and identifies a five-year plan for financial management reform in the Air Force. This section, therefore, satisfies the requirements levied on the Assistant Secretary of the Air Force (Financial Management and Comptroller) in Section 8022 of Title 10 of the United States Code.

### **NEED FOR FINANCIAL MANAGEMENT REFORM**

<b>Providing commanders and managers better information</b>	Ongoing and projected cuts in budgetary resources, coupled with a higher operational / personal tempo and the emphasis on the cost of outputs (results), require financial information that is highly accurate, timely, and tailored to management needs – especially for working capital funds (WCF) and acquisition program managers
<b>Supporting other reform programs</b>	Companion reform programs, such as acquisition and other business innovations, will rely on improved financial management processes and systems to be fully effective
<b>Improving public confidence</b>	Improved financial management processes and systems which are compliant with Federal Generally Accepted Accounting Principles (FEDGAAP) and which produce highly accurate and timely information will improve public confidence in the Air Force as responsible stewards of taxpayer funds
<b>Meeting public law requirements</b>	Of paramount importance are laws, such as the Chief Financial Officer’s Act, the Government Performance and Results Act and others, which mandate quantum improvements in financial management and accountability

### **REFORM BLUEPRINTS**

SAF/FM developed the *FM Long-Range Plan—Building Our Path Into the 21<sup>st</sup> Century*, the *FM Mid-Range Plan*, and the *Financial Management Reform in the Air Force Briefing*. Together, these working documents are road maps to improved financial management within the Air Force.

They outline the goals, objectives, and accomplishments of the Financial Management Reform initiative.

### FOUNDATION REFORMS

These are the reforms that are most fundamental to improving financial management in the Air Force.

#### *IMPLEMENT GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)*



One of the most challenging and potentially high pay off reform initiatives is to implement the Government Performance and Results Act (GPRA) within the Air Force. The DoD and other federal agencies are required by GPRA to establish goals and performance measures and to then report annually on progress.

More than a legal mandate, GPRA requirements are logical and reasonable expectations for any organization. All organizations should manage by setting performance goals and then establishing performance measures to evaluate their success in achieving those goals. In fact, the Air Force has long used a goals and performance measures concept at all levels and within every facet of its operations. Air Force leadership views GPRA as an opportunity to showcase its past and current management efforts, thereby, enhancing public and congressional confidence in the Air Force as a good steward of public funds.

Since GPRA was passed in 1993, the Air Force has taken various actions to support it. In late 1997, GPRA activities picked up the pace. DoD is required by law to submit a GPRA strategic plan. The Air Force worked closely with USD(C) to provide input to the DoD Strategic Plan and GPRA submission. The planning process continued at the Air Force, major command, and unit levels, with the development of a strategic plan to improve the performance of identified mission essential tasks using performance measures with standards. A brief overview of this was included in the Air Force Budget Highlights for FY 1999. It includes the mission, vision, core values, and core competencies. This will be the basis for submission of the Air Force strategic/performance plan to OSD and Congress around the middle of FY98.

There are three goals in the plan. These goals are Operational Performance, Quality People, and Modernization. These goals indirectly link up to the DoD goals. The Air Force is still in the process of finalizing the performance measures, but when completed, they will cover all its goals. Depot and supply activities provide a good example of ongoing Air Force efforts to use performance measures for improvement. Starting in FY97, the Air Force established performance plans for each of its Air Logistics Centers for their depot and supply activities. Specific targets were set for revenues, costs, and net operating results at each activity. Unit costs are also measured at the depots because these costs relate to the efficiency of operations. Measures for supply activities include stockage effectiveness and issue effectiveness. Both the financial and performance measures are reviewed regularly at all levels of command.

## Overview

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When completed, the Air Force will have a comprehensive set of strategic planning products, including the Air Force Task List, the Air Force Strategic Plan, and the Air Force Performance Measure System. While the Air Force is not required by law to submit plans, it intends to do so once its planning products are complete.

### *IMPROVE COST ACCOUNTING*

Relating cost to performance is fundamental to financial management of the future. It will also eventually complement GPRA by helping the Air Force associate costs with its goals. Activity-Based Costing/Management (ABC/M) is an analytical technique for relating cost to specific activities. The Air Force has taken a number of steps to develop and nurture ABC/M as an integral part of its decision making process. Air Force cost personnel are currently preparing an ABC/M handbook to instruct Air Force personnel in applying ABC/M within the Air Force. Moreover, they have designed and produced a comprehensive set of training aids and conducted various training sessions. To date, six 3 ½-day ABC/M classes have been conducted for analysts who participate in ABC/M studies. In addition to the 3 ½-day course, an executive level briefing was also developed. This briefing has been given to numerous senior AF and DoD leaders. Additionally, to assist ABC/M users, the Air Force developed an ABC/M website, located on the SAF/FM Home Page. This website provides information to the field on ABC activities, including: training, announcements, course descriptions, an ABC/M dictionary, software evaluations, a bibliography, an executive briefing, and direct linkage to various other ABC home pages.



Air Force Materiel Command (AFMC) implemented an initiative to run AFMC like a business, with the goal of improving their support to the warfighter while reducing costs. To do this, AFMC created eight business areas headed by eight chief operating officers (COOs). The COO's job is to: focus on mission and customers; set goals and measure results for both operational and financial performance; know what products/services they provide; manage total cost of the output (product), not input (budget); and set annual financial goals to drive down unit costs. This initiative is an ABC/M approach to determine the cost of operations within AFMC. Its focus is on the cost of outputs, not inputs, with the intent to implement a cost accounting system that supports, not hinders, activity cost management. The bottomline is that AFMC must and will reduce its costs while maintaining support to the warfighters.

Air Combat Command (ACC) implemented an initiative to establish a baseline of reliability, maintainability, and deployability and cost of ownership values associated with the Combat Air Force's (CAF) major weapons systems. This cost of ownership matrix will provide the framework for developing alternative financing approaches between competing alternatives with the goal of reducing operating and support costs by 30% over the next 6 years. Total cost of ownership will include not only operating and support costs, but also RDT&E, production, and MILCON to form a total cost baseline. Initial efforts are due for completion in FY98. In FY99,

SAF/FMC will assume responsibility for this system and merge the existing cost reporting system and the ACC effort into a single entity.

### *IMPROVE CFO REPORT*



CFO reports are important because they are the Air Force's "window" to the outside world. They are the public documents that determine how others see not only the Air Force's financial data and financial management processes, goals, and improvements, but also the path the Air Force is taking to meet the challenges of air and space dominance in the 21<sup>st</sup> century.

The Air Force has taken steps to make the CFO reports more useful, both within and outside the Air Force. In support of complying with GPRA requirements, the Air Force will use these documents to report on progress in meeting performance measures. They also will document progress in meeting the performance goals mandated by the Air Force Materiel Command Commander for working capital fund activities. In these ways, the reports should become more useful to Air Force commanders.

By law, the Air Force must soon add a net cost statement to its CFO reports, documenting what its Major Air Commands (MAJCOMs) and activities cost. SAF/FM will work with the MAJCOMs to make this new statement as useful as possible.

The Air Force must also do what every successful public corporation in America must do--it must have financial statements that are auditable. The Air Force goal is to achieve at least one auditable principal statement no later than the FY98 CFO report.

The Air Force, working in concert with DFAS-DE and the Air Force Audit Agency (AFAA), made a significant effort to produce an auditable **Statement of Budgetary Resources** for FY97. The Statements of Federal Financial Accounting Standards (SFFAC) prescribe that CFO financial statements will include a Statement of Budgetary Resource effective with FY98. The Air Force received early implementation authority to produce this statement for FY97. Its purpose in doing so was to attempt to produce an auditable statement based on information and reports that were already available and extensively used throughout the Air Force. As a minimum, this effort would provide experience in producing this statement and place the Air Force in a position to receive an opinion on the FY98 statement

With the assistance of the AFAA and DFAS-DE, the Air Force was, in fact, able to produce the statement and include it as a principal statement this year. The Air Force and DFAS-DE worked to ensure the information included in the statement was as complete and accurate as possible, while the AFAA established audit procedures and scheduled sufficient audit work to satisfy themselves as to the results reported on the statement. As of this writing, the AFAA has not been able to complete sufficient work to express an opinion on this statement. However, with the

## Overview

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permission of the GAO, they will continue this effort and report on this statement at a later date. The Air Force's goal is to achieve an auditable statement.

### *FIX FINANCIAL SYSTEMS*

Probably the challenge of greatest potential payoff to the financial management reform effort is the improvement, modernization, and/or replacement of our current suite of financial systems and the feeder systems, which feed these financial systems. Ultimately, all systems, including feeder systems, must be compliant with the Federal Generally Accepted Accounting Principles. More importantly, these systems must be fixed to ensure Air Force commanders have the accurate and timely data they need to effectively manage.

SYSTEM	STATUS
<p><b>General Accounting:</b></p> <p><i>Defense Joint Accounting System (DJAS)</i></p>	<ul style="list-style-type: none"> <li>• The Air Force and the Defense Finance and Accounting Service-Denver Center (DFAS-DE) continued their cooperative effort to modify the basic system to support Air Force general fund accounting requirements</li> <li>• The goal is to decide on an approach to general funds accounting by the middle of FY98</li> </ul>
<p><b>Materiel Accounting:</b></p> <ul style="list-style-type: none"> <li>• <i>Standard Materiel Accounting System (SMAS)</i></li> </ul>	<ul style="list-style-type: none"> <li>• SMAS provides <i>retail</i> supply accounting support to the current Standard Base Supply System (SBSS)</li> <li>• SBSS is being modernized into the renamed Integrated Logistics System-Supply (ILS-S), which will provide improved retail supply support to the warfighter under the Focused Logistics and the Global Combat Support System (GCSS) initiatives. ILS-S modernization required a commensurate modernization effort for SMAS</li> <li>• The modernized SMAS Initial Operating Capability (IOC) is scheduled for October 1998 with Full Operating Capability (FOC) scheduled for FY2001</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Financial Accounting and Billing System (FIABS)</i></li> </ul>	<ul style="list-style-type: none"> <li>• FIABS provides wholesale supply accounting support to the Air Force</li> <li>• In view of efforts in the Logistics community to integrate retail and wholesale supply, DFAS-DE plans to merge FIABS and the Standard Material Accounting System into one modernized supply accounting system</li> <li>• Systems merger is scheduled to be completed in FY2001</li> </ul>

<ul style="list-style-type: none"> <li>• <i>Defense Industrial Financial Management System (DIFMS)</i></li> </ul>	<ul style="list-style-type: none"> <li>• Currently, depot maintenance financial and cost accounting support is being provided in an unsatisfactory manner by a large number of legacy systems. The Air Force has selected a Navy system, renamed DIFMS, as a cost-effective replacement</li> <li>• DIFMS is currently being modernized, and will provide first-class financial accounting, managerial cost accounting, and cost management support for depot maintenance activities at the remaining three Air Logistic Centers</li> <li>• DIFMS deployments are scheduled for April 1999, October 1999, and April 2000</li> </ul>
<p><b>Budget Support:</b></p> <p><i>Financial Information Resources System (FIRST)</i></p>	<ul style="list-style-type: none"> <li>• The Air Force must modernize the legacy systems that manage the Air Force budget. Existing systems are old, poorly documented, and difficult to maintain; many were developed in the 1960's</li> <li>• FIRST will: Implement the budget and accounting classification code (BACC) structure (a DoD directive); provide a single, Air Force-wide solution integrating budget functions, while complying with OSD directed guidelines; and make the software portable across a large selection of hardware</li> <li>• Actions completed in FY97 included: Business process reengineering sessions involving representatives from all organizational levels were conducted; detailed requirements models for funds management (the initial budgeting phase) were completed; the Ada programming language prerequisite was abandoned and other technical possibilities were reopened to take advantage of more widely supported products and methods; program management was strengthened; and the acquisition strategy was changed from internal development to contract development</li> <li>• The goal is to implement the modernization in phases, yielding the initial product for testing and implementation within 18 months of the contract award-anticipated in FY98</li> </ul>

## Overview

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### Feeder Systems:

- *Standard Base Supply System (SBSS)*
- *Work Information Management System (WIMS)*
- *Integrated Maintenance Data System (IMDS)*
- *Etc.*

*(These systems feed financial systems with essential data.)*

- Much of the data needed for financial management comes from systems operated by functional communities other than Financial Management and Comptroller. Data on supply costs, for example, come from SBSS; data on the value of real property come from WIMS; and data on maintenance costs come from IMDS
- These systems are owned by their respective functional communities. But in order to have accurate financial information and to comply with the Chief Financial Officers Act, the financial aspects of these feeder systems must be improved. To that end, the Air Force picked key systems and formed teams that include people from the functional area involved, the financial community, the audit community, and DFAS. Every effort is made on fixing the financial aspects of the systems as the functional manager makes improvements in order to minimize or avoid added costs
- SBSS, for example, is being replaced by the Integrated Logistics Systems-Supply (ILS-S) beginning in FY99; WIMS is being replaced by the Automated Civil Engineering System (ACES) beginning in FY99; and IMDS will begin deployment in FY99



### OTHER REFORM INITIATIVES

***IMPROVE BUSINESS PRACTICES*****Defense Travel System (DTS)**

The Defense Travel System (DTS) is a seamless, paperless, automated travel system that will revolutionize the way Temporary Duty (TDY) travel is conducted and processed throughout the Department of Defense (DoD). The DTS is based on a new concept of operation which uses reengineered policies and procedures for TDY travel, and it incorporates best industry practices and technology. The objectives of the DTS are to provide a comprehensive TDY travel system that meets the needs of travelers, commanders, and other process owners; reduce overall cost to the Government; and significantly improve customer service.

DTS is expected to provide major benefits. It is an end-to-end automated TDY travel systems and once fully implemented, it will eliminate the need to manually process travel requests, make travel arrangements, and compute travel vouchers for settlement. It also reconciles voucher payments with our existing accounting and disbursing systems.

The new DTS concept of operation is currently being tested at more than thirty locations DoD-wide. The Air Force initially established five Travel Reengineering pilot sites to test the new concept of operation. The sites are located at Bolling, Dover, Langley, Peterson, and Randolph AFBs. To further test this new concept and determine how best to implement the DTS at Air Force locations, three additional pilot sites were established. They are located at Mountain Home and Hill AFBs, and Niagara Falls Air Reserve Station. These pilot sites will continue to operate using the reengineered concept of operation until the DTS is implemented.

Some major milestones for the new DTS are: Contract Award – May 98; System Test –July 98; and Begin Implementation –Sept. 98.

**Automated Business Services System (ABSS)**

The Automated Business Services System (ABSS) is an Air Force sponsored software application developed to automate financial document processing. The system enables those with a requirement to procure an end-item or service to enter that requirement on-line for coordination and funds certifications. The system's intent is to shift financial processes from hard copy to electronic processing. The system includes options for electronic data transfer into the standard accounting systems to increase efficiency and accuracy during commitment of funds. ABSS interfaces with standard procurement and payment systems.

## Overview

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ABSS is a key component of the acquisition community's effort to move toward paperless contracting. As such, it is an important element of the Defense Reform Initiatives.

ABSS provides the following benefits to its users:

- Provides a Windows graphical user interface (GUI) with consistent and standardized "look and feel"
- Automates the processing of financial documents through creation, coordination, certification, and uploading the contract writing system
- Provides user-specific pick lists for funding and technical information
- Provides on-line traceability for financial documents
- Reduces the total acquisition lead time for financial document processing
- Reduces creation of negative unliquidated obligations (NULOs)
- Reduces duplicate data

During FY97, a beta version of ABSS was operational at Eglin, Edwards, Patrick, and Scott AFBs; Phillips Labs at Kirtland and Hanscom; and the F-16 SPO at Wright-Patterson AFB. The ABSS production version is scheduled for deployment at pilot sites in each MAJCOM and across AFMC in FY98. The rest of the Air Force will be deployed in FYs 99-01.

### **Electronic Document Access (EDA)/Electronic Document Management (EDM)**



EDA and EDM are two more initiatives designed to move some of our most basic financial operations towards a paperless environment. EDA will be used by the Air Force, the other Services, and DFAS. EDM will be used by DFAS Operating Locations (OPLOCs) and Centers, but will certainly benefit the Services.

*Electronic Document Access (EDA)* provides multiple DoD communities on-line, World Wide Web access to documents used to support the procurement, contract administration, bill paying, and accounting processes. EDA is a web-based application accessible via existing communications networks and personal computers currently in use today. The current business environment relies upon hardcopy for the distribution, storage, and retrieval of contractual information. EDA replaces the paper process by providing a single, read-only "electronic file cabinet" that can be accessed by any authorized DoD user.

Some of the benefits include aiding the reduction of unmatched disbursements, reducing paper consumption, and increasing convenience to contract specialist and other members of the user community. This will result in both manpower and monetary savings.

Scott AFB was the Air Force's beta test site. During FY97, several software changes were implemented which resulted in a successful test. Air Force-wide implementation is scheduled to begin in FY98.

*Electronic Document Management (EDM)* results from the combination of multiple technologies used to convert paper documents to electronic images, and to automate the processing of these documents.

The three primary technologies used today in the EDM system are:

- *Imaging* – The ability to take an electronic picture of a paper-sourced document and store the image on a computer for subsequent viewing.
- *Electronic Foldering* – The logical grouping of electronic documents for processing and reference.
- *Workflow* – Replaces manual distribution of hard copy documentation through automation of existing business rules and procedures. Each set of images, called a case, is grouped by folders and moved from one process to another using workflow.

DFAS operations incorporating EDM will differ from today's paper-based operations. Currently, the physical movement of paper documents precedes and follows all productive work, and this results in attendant storage and paper-finding problems. EDM eliminates the physical movement and storage of paper documents because an electronic document replaces the paper, and this electronic document may be accessed at any time.

The primary benefits of EDM systems compared to manual paper-based processes are:

- Increased processing efficiency by using standardized processes
- Reduced or eliminated lost and misplaced documents
- Monitored and accurate production metrics
- Reduced or eliminated paper space and storage requirements.

Functional applications have been prototyped at various DFAS sites including: Omaha, Charleston, Indianapolis, Kansas City, and Columbus. The goal is to maximize compatibility among all users and eventually deploy an EDM system to all affected sites.



### ***IMPROVE COMPLIANCE***



During FY 97, the Air Force placed a great deal of emphasis on improving its compliance with financial laws and regulations. Better compliance is expected to not only improve financial operations, but also result in more favorable findings from regulatory agencies and enhanced public opinion.

In speaking of the Air Force's financial controls the Air Force Audit Agency (AFAA) stated, "*The internal control process was effectively designed to provide reasonable assurance funds were spent only for designated purposes and management adhered to spending limits and time restrictions on the use of funds.*" This assessment told Air Force leadership they have the proper controls in place. The next step is to improve compliance with those controls. These tasks are often boring and tedious, thereby requiring constant attention.

Continued emphasis is being placed on tracking and resolving CFO related audit recommendations through a joint DFAS/AF tracking system--closed over 80% of the recommendations through the FY96 CFO reports.

Federal Generally Accepted Accounting Principles (FEDGAAP) provisions are being incorporated into new systems developments. This will result in automated reconciliations and resolved manual input problems; thereby, reducing opportunities for non-compliance.

Specific efforts were taken to improve Federal Managers Financial Integrity Act (FMFIA) compliance. In-depth, operational reviews of the Financial Services Offices (FSOs) were made, with emphasis on internal controls, improved guidance, training, and quality assurance. To assure continued oversight an SAF/FM focal point was established. Additionally, particular attention was paid to computer security and inventory management.

Attention to improving compliance is not just "putting out fires", but is being institutionalized. It is a continuing agenda item at FM Executive Sessions with periodic follow up letters to MAJCOM FMs. "Triannual Reviews" have also been mandated to ensure accounting records are in good order--this has resulted in freeing up obligation authority.

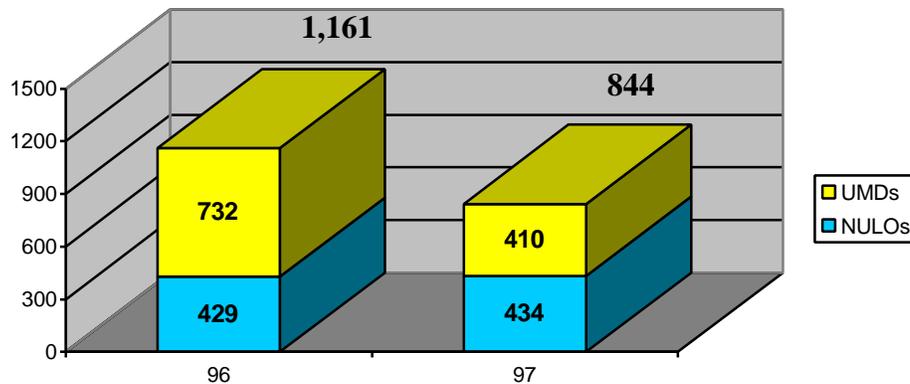
**REDUCE PROBLEM DISBURSEMENTS**

Problem disbursements are made up of Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs). An UMD is a financial disbursement that cannot be readily matched to a recorded obligation. A NULO is a financial disbursement that appears to exceed the obligation to which it has been matched. NULOs almost always occur because of accounting errors and are primarily a result of antiquated financial systems.



The Air Force works hand-in-hand with the DFAS to reduce the overall level of problem disbursements. Initiatives to reduce problem disbursements include use of the Automated Reconciliation System and instituting procedures for Defense Accounting Offices (DAOs)/OPLOCs to correct payment notice rejects and NULOs. Reporting criteria has changed and become standardized during the OPLOC conversion process. In June 1996, the GAO mandated that DAOs and OPLOCs implement procedures to correct contract payment notice rejects. During FY97, work in process data began being counted as NULOs.

**Problem Disbursements**



## Overview

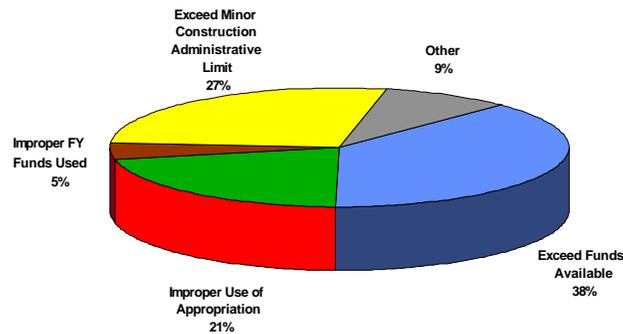
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### ***REDUCE ANTIDEFICIENCY ACT CASES***

The Antideficiency Act (ADA) sets various rules governing the obligation and expenditure of public funds. Simply stated, it is a violation of the Act to obligate or expend funds for purposes or in amounts in excess of that authorized and appropriated as to purpose, time and amount. Antideficiency violations are reported to the President, the Office of Management and Budget, and the Congress.

The Air Force has placed considerable emphasis on reducing the number of ongoing ADA investigations as well as preventing such violations. The number of open cases dropped from 50 in 1994 to 14 in 1997. The significant drop in violations is attributed to new ADA guidance, improved screening of suspected violations, and increased ADA awareness training.

#### **Causes of ADA Violations From FY 92 thru FY 97**



### ***SEEK OUTSIDE ADVICE***

As the focal point for Air Force financial reform, SAF/FM has used every available means to promote and incorporate reform efforts.

SAF/FM developed a professional relationship with the Financial Executives Institute, a group of private-sector Chief Financial Officers (CFOs) who do pro bono work for the government. The Air Force has benefitted from their advice and they helped demonstrate to external organizations that the Air Force is seeking to improve its financial operations – a step towards restoring public confidence.

The Air Force utilized the commercial sector's expertise and manpower by outsourcing a number of CFO-related projects to contractors.

The Air Force also benefited significantly from the help of its own auditors. The Air Force Audit Agency's Management Advisory Services were used extensively to help improve systems and CFO reports.

## FROM GOLDEN LEGACY TO BOUNDLESS FUTURE

From the moment the Air Force became a separate service 50 years ago, and even before, the Air Force has been the *Service of invention and innovation*. This has been one of the key strengths of the Air Force and of the nation as a whole--the ability to innovate--to look ahead and seek new ways to develop and employ air power. This enables the Air Force to respond quickly to new strategic challenges and advanced technological opportunities. The Air Force must, and will, integrate information technologies with air/space operations in an inventive and innovative way that is always forward looking. Innovation is the key to ensuring today's Air Force core competencies meet the challenges of tomorrow and that the Air Force moves quickly along the evolutionary path to becoming a true space and air force *If deterrence fails, the Air Force will be ready to fight the next war, not the last war!*



### ***Limitations of the Financial Statements***

*The financial statements included in this report have been prepared to report on the financial position of the Air Force pursuant to the requirements of the CFO Act of 1990.*

*While the statements have been prepared from the books and records of the Air Force, in accordance with the formats prescribed by OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same books and records.*

*The statements should be read with the realization that they are for a federal entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities, other than for contracts, can be abrogated by the sovereign entity.*



***DEPARTMENT OF THE  
AIR FORCE***

***GENERAL FUNDS***

***PRINCIPAL  
STATEMENTS***



# Principal Statements

**Department of Defense  
Department of the Air Force  
Statement of Financial Position  
As of September 30, 1997  
(Thousands)**

ASSETS	<u>1997</u>	<u>1996</u>
<b>1. Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$44,821,296	\$50,663,271
(2) Investments, Net (Note 4)	949	863
(3) Accounts Receivable, Net (Note 5)	991,346	1,378,292
(4) Interest Receivable	0	0
(5) Advances and Prepayments	183	1,904
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	319,518	189,637
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	7,923,141	7,106,537
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	42,437
d. Inventory, Net (Note 8)	1,628,051	2,200,522
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	249,149,633	246,058,972
l. War Reserves	38,707,359	34,318,770
m. Other Entity Assets	0	0
<b>n. Total Entity Assets</b>	<b>\$343,541,476</b>	<b>\$341,961,205</b>
<b>2. Non-Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$32,415	\$47,661
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

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The accompanying notes are an integral part of these statements.

# Principal Statements

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**Department of Defense**  
**Department of the Air Force**  
**Statement of Financial Position**  
**As of September 30, 1997**  
**(Thousands)**

<b>ASSETS, Continued</b>	<b><u>1997</u></b>	<b><u>1996</u></b>
<b>2. Non-Entity Assets:</b>		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$31,286	\$9,410
(2) Interest Receivable, Net	10,959	46,616
(3) Other (Note 6)	48,245	7,851
c. Cash and Other Monetary Assets (Note 3)	123,831	68,726
d. Other Non-Entity Assets	0	0
<b>e. Total Non-Entity Assets</b>	<b><u>\$246,736</u></b>	<b><u>\$180,264</u></b>
<b>3. Total Assets</b>	<b><u><u>\$343,788,212</u></u></b>	<b><u><u>\$342,141,469</u></u></b>
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$199,080	\$101,602
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	535,203	722,395
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	5,173,324	2,342,764
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	1,079,401	1,057,347
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	182,736	17,275
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	5,376	17,113
<b>c. Total Liabilities Covered by Budgetary Resources:</b>	<b><u>\$7,175,120</u></b>	<b><u>\$4,258,496</u></b>

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The accompanying notes are an integral part of these statements.

# Principal Statements

**Department of Defense**  
**Department of the Air Force**  
**Statement of Financial Position**  
**As of September 30, 1997**  
**(Thousands)**

<b>LIABILITIES, Continued</b>	<b><u>1997</u></b>	<b><u>1996</u></b>
<b>5. Liabilities Not Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	695,986	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	1,042,203	993,134
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	7,940,780	6,142,964
<b>c. Total Liabilities Not Covered by Budgetary Resources</b>	<b><u>\$9,678,969</u></b>	<b><u>\$7,136,098</u></b>
<b>6. Total Liabilities</b>	<b><u>\$16,854,089</u></b>	<b><u>\$11,394,594</u></b>
<b>NET POSITION (Note 20)</b>		
<b>7. Balances:</b>		
a. Unexpended Appropriations	\$39,111,856	\$48,303,502
b. Invested Capital	297,300,669	289,574,853
c. Cumulative Results of Operations	198,523	2,830
d. Other	2,044	1,788
e. Future Funding Requirements	(9,678,969)	(7,136,098)
<b>f. Total Net Position</b>	<b><u>\$326,934,123</u></b>	<b><u>\$330,746,875</u></b>
<b>8. Total Liabilities and Net Position</b>	<b><u>\$343,788,212</u></b>	<b><u>\$342,141,469</u></b>

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The accompanying notes are an integral part of these statements.

# Principal Statements

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**Department of Defense**  
**Department of the Air Force**  
**Statement of Operations and Changes in Net Position**  
**For the Period Ended September 30, 1997**  
**(Thousands)**

	<u>1997</u>	<u>1996</u>
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$59,703,432	\$56,262,701
2. Revenues from Sales of Goods and Services		
a. To the Public	181,231	227,172
b. Intragovernmental	2,906,769	2,992,020
3. Interest and Penalties, Non-Federal	1,041	8,934
4. Interest, Federal	55	47
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	1,674,228	372
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(1,041)	(8,934)
<b>8. Total Revenues and Financing Sources</b>	<u>\$64,465,715</u>	<u>\$59,482,312</u>
<b>EXPENSES</b>		
9. Program or Operating Expenses (Note 23)	\$58,987,828	\$55,848,245
10. Cost of Goods Sold (Note 24)		
a. To the Public	181,231	227,172
b. Intragovernmental	2,906,769	2,992,020
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	8,802	6,548
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	3,171	3,172
14. Other Expenses (Note 25)	2,926,782	479,589
<b>15. Total Expenses</b>	<u>\$65,014,583</u>	<u>\$59,556,746</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$548,868)	(\$74,434)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
<b>18. Excess (Shortage) of Revenues and     Financing Sources Over Total Expenses</b>	<u>(\$548,868)</u>	<u>(\$74,434)</u>

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The accompanying notes are an integral part of these statements.

## Principal Statements

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Department of Defense  
Department of the Air Force  
Statement of Operations and Changes in Net Position  
For the Period Ended September 30, 1997  
(Thousands)

	<u>1997</u>	<u>1996</u>
<b>EXPENSES, Continued</b>		
<b>19. Net Position, Beginning Balance, as Previously Stated</b>	\$330,746,875	\$315,528,856
20. Adjustments (Note 27)	<u>(2,063,976)</u>	<u>3,788,199</u>
21. Net Position, Beginning Balance, as Restated	\$328,682,899	\$319,317,055
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(548,868)	(74,434)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>(1,199,908)</u>	<u>11,504,254</u>
<b>24. Net Position, Ending Balance</b>	<u><u>\$326,934,123</u></u>	<u><u>\$330,746,875</u></u>

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The accompanying notes are an integral part of these statements.

## Principal Statements

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**Department of Defense  
Department of the Air Force  
Statement of Budgetary Resources (Consolidated)  
For the Period Ended September 30, 1997  
(Thousands)**

**1997**

**BUDGETARY RESOURCES:**

Budget Authority	\$ 72,448,491
Unobligated Balances	10,707,932
Spending Authority from Offsetting Collections	4,817,276
Adjustments	(143,057)
<b>Total Budgetary Resources</b>	<b><u>\$ 87,830,642</u></b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 80,598,210
Unobligated Balances Available	5,328,636
Unobligated Balances Not Available	1,903,796
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 87,830,642</u></b>

**OUTLAYS:**

Obligations Incurred	\$ 80,598,210
Less: Spending Authority from Offsetting Collections and Adjustments	(6,387,442)
Obligated Balance, Net - Beginning of Period	40,055,131
Obligated Balance Transferred, Net	0
Less: Obligated Balance, Net - End of Period	(37,589,811)
<b>Total Outlays</b>	<b><u>\$ 76,676,088</u></b>

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The accompanying notes are an integral part of these statements.

***DEPARTMENT OF THE  
AIR FORCE***

***GENERAL FUNDS***

***NOTES TO THE  
PRINCIPAL FINANCIAL  
STATEMENTS***

## Footnotes

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE AIR FORCE  
GENERAL FUNDS  
FY 97**

**Note 1. Significant Accounting Policies:**

**A. Basis of Presentation:**

These financial statements were prepared to report the financial position and results of operations of the Department of the Air Force as required by the Chief Financial Officers (CFO) Act of 1990, and other appropriate legislation. They were prepared from the books and records of the Air Force in accordance with DoD Financial Management Regulation, Volume 6, Chapter 6, Form and Content of Audited Financial Statements (as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01 (and applicable portions of 97-01), "Form and Content of Agency Financial Statements") and DoD's accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports (also prepared by the Air Force pursuant to OMB directives) used to monitor and control DoD's use of budgetary resources.

The CFO Act requires that the Air Force prepare and submit for audit financial statements for general, special, deposit, and trust funds of the Department during the preceding fiscal year. The Comptroller of the Air Force is required to issue two consolidated financial statements for FY 97: Statement of Financial Position and Statement of Operations and Changes in Net Position. The FY 97 Principal Statements will also include the Statement of Budgetary Resources due to early implementation by the Air Force (see Note 32).

**B. Reporting Entity:**

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the Department of Defense and made the Air Force a department within DoD. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space.

The accompanying consolidated financial statements of the Air Force include the accounts of the general, special, deposit, and trust funds under the Air Force's control. The consolidated financial statements account for these funds for which the Air Force has responsibility except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The audited financial statements are presented on the accrual basis of accounting (as required by DoD accounting policies) with the exception of the Gift and Cadet fund accounts and certain year-end cut-off procedures which are immaterial. Financial statements and reports are prepared by the Defense Finance and Accounting Service - Denver Center, Directorate of Departmental

## Footnotes

Accounting (DFAS-DE/AD) based upon data provided by over 100 financial reporting systems, some of which are the General Accounting and Finance System (GAFS), Standard Base Supply System (SBSS), Medical Materiel Accounting System (MMAS), and major command unique systems which feed into general funds. In addition, feeder data are supplied by the Air Force Academy Accounting and Finance Office for the Cadet Fund and by DFAS-DE/AD for the Gift Fund which is administered by DFAS-DE/AD. Other entities, such as Army Corps of Engineers and Department of the Navy, also send data for consolidation.

DFAS-DE/AD uses the Departmental On-Line Accounting and Reporting System (DOLARS) to consolidate and prepare Air Force level budgetary reports. Monthly, file transfer protocol (FTP) is used to transmit data from the base, operating location, or major command, depending on the report. The data are programmatically validated by DOLARS programs and then automatically updated in the departmental database. Data are also updated in the database through manual entries. Appropriation Status of Funds reports are prepared from this single, integrated database thus enabling consistent, accurate, and timely reporting. All data in the database have readily available audit trails at departmental level.

The financial statements presented herein are prepared by the CFO Reporting System using data from DOLARS, records summarized in the Air Force service-unique general ledger, and other external data.

The Air Force incorporates into the accounting systems internal controls, reconciliations, management by exception reports, and other check and balance processes to enhance required general ledger controls.

The following is a list of Air Force account numbers and titles:

<u>Air Force Account Number</u>	<u>Title</u>
57 * 0704	Military Family Housing (O&M and Construction), AF
57 * 0810	Environmental Restoration, AF
57 * 1999	Unclassified Receipts and Expenditures, AF
57 * 3010	Aircraft Procurement, AF
57 * 3011	Procurement of Ammunition, AF
57 * 3020	Missile Procurement, AF
57 * 3080	Other Procurement, AF
57 * 3300	Military Construction, AF
57 * 3400	Operation and Maintenance (O&M), AF
57 * 3500	Military Personnel, AF
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), AF
57 * 3700	Personnel, AF Reserve
57 * 3730	Military Construction, AF Reserve
57 * 3740	Operation and Maintenance (O&M), AF Reserve
57 * 3830	Military Construction, Air National Guard
57 * 3840	Operation and Maintenance (O&M), Air National Guard
57 * 3850	Personnel, Air National Guard

57 * 5095	Wildlife Conservation, Military Reservations, Air Force (Special Fund Accounts)
57 * 8418	Air Force Cadet Fund
57 * 8928	Air Force General Gift Fund
57 * 3XXX	Budget Clearing Accounts
57 * 6XXX	Deposit Fund Accounts

### C. Budgets and Budgetary Accounting:

The Air Force's activities are financed by general, trust, special, deposit, and revolving funds. These notes describe the attributes of these funds.

General fund accounts are used to record the amounts appropriated by Congress and the financial transactions utilizing the funds. The Air Force manages 16 general fund accounts 7 are funded by annual year appropriations, and 9 are funded by multi-year appropriations. The appropriations made available in FY 97 include:

#### General Funds Only (in thousands)

Budget Authority	\$72,901,755
Other	<u>(503,821)</u>
Appropriations Net of Adjustment	\$72,397,934
Return of Equity to Treasury for Closing Accounts	<u>(1,110,472)</u>
Net Appropriations Available for FY 97	<u><u>\$71,287,462</u></u>

Trust fund accounts are used to record the receipt and expenditure of funds held in trust by the Government for use in carrying out specific purposes or programs in accordance with the terms of a trust agreement or statute. Trust accounts include funds collected through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes. The Air Force maintains two trust fund accounts totaling \$3.2 million in assets.

Special fund accounts are credited with collections from specific sources that can only be used in accordance with specific provisions of law. The Air Force manages one special fund account, the Wildlife Conservation Program, totaling \$.6 million in assets. This special fund account had appropriations available of \$.6 million.

Deposit funds are generally used to 1) hold funds whose distribution awaits legal determination or for which the Air Force acts as agent or custodian, and 2) account for unidentified remittances. The Air Force expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. The Air Force deposit fund accounts total \$32 million in assets.

## Footnotes

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### **D. Basis of Accounting:**

Transactions are recorded on an accrual basis of accounting, with the exception of the Cadet and Gift Trust Fund accounts (described in detail in a subsequent note) which are on a cash basis. Also, see Note 31 for other exceptions to the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. Interfund balances and transactions were eliminated with the exception of unearned revenues (see Note 31).

The financial statements are presented in accordance with the accounting principles and reporting standards contained in the DoD Financial Management Regulation (DoD 7000.14-R Volume I). There are, however, six areas in which the accounting systems do not currently comply with existing DoD accounting standards. These areas include:

(1) Chart of Accounts. Prior to and since being capitalized by DFAS, systems used to account for Air Force funds have not implemented the standard DoD general funds general ledger (GFGL) chart of accounts. DoD directives require a general ledger system be established using the standard DoD chart of accounts to provide primary internal management information. This deficiency is disclosed in DFAS-Denver Financial Management 5-Year Plan, Volume 2.

(2) General Ledger. Prior to and since being capitalized by DFAS, systems used to account for Air Force funds have not been implemented to reflect a true transaction driven general ledger system to provide a consolidated source of financial management information for either management or financial statement purposes. To account for its resources, the Air Force utilizes an extensive number of external systems to control and report the status of resources. Many of these systems are outside the accounting and finance network controlled by DFAS (i.e., budget and property systems) and the general ledger accounting process. This deficiency is included in DFAS-Denver Financial Management 5-Year Plan, Volume 2. DFAS has initiated a project to integrate and modernize DFAS accounting systems into a comprehensive management system. The overall goal is to bring financial data for both general funds and working capital funds under general ledger control complying with General Accounting Office (GAO) and OMB mandates. The general ledger system will be transaction driven and utilize the DoD Uniform Chart of Accounts. DFAS-DE completed its evaluation and concept design of the Defense Joint Accounting System (DJAS) in May 1997, and is presently considering other alternatives.

(3) Government Furnished Material (GFM) Costs. DFAS-DE has identified and reported GFM as a deficiency.

(4) Inventory/Equipment. The Air Force uses different valuation methods for the various categories of materials and equipment contained in the Air Force inventory. Materials inventory and equipment items accounted for in logistics systems are valued at standard price (latest acquisition cost). Generally, latest acquisition costs are based on prices paid for recently acquired items plus surcharges for handling, distributing, and other costs which result in their being higher than historical cost. Real property installed equipment is valued at cost and is included as part of

the real property facility cost basis. The valuation system is not in compliance with existing and soon-to-be-implemented federal accounting standards. The DoD Comptroller has directed an inventory valuation methodology (which is a departure from generally accepted accounting principles) allowing the Air Force to continue to use latest acquisition costs in logistics systems for equipment valuations and for valuations of inventory for financial statements. The Air Force has implemented this inventory valuation methodology.

(5) Capitalizing Aircraft and Missile Modifications Cost. The Air Force does not generally capitalize the cost of aircraft and missile contract modifications made after the initial acquisition.

(6) Closed year appropriation balances for receivables and payables and their effects on changes in the operating statement are not reliable.

For other systems limitations affecting reporting, see Note 31, Net Change in Invested Capital and Accrued Expenditure Report paragraphs.

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

The Air Force is financed primarily through appropriations provided by Congress for annual and multi-year purposes. The following Treasury accounts are used to fund, execute, and report on total financial activity.

(1) General Funds. This grouping contains the bulk of congressional appropriations including operations, research, development, test and evaluation (RDT&E), investment (procurement), and construction accounts. Operation accounts represent those funds used for the pay of operating forces. These funds also finance the functional and administrative support needed to operate and maintain Air Force installations.

The Air Force conducts and contracts for RDT&E of advanced weapon systems which are normally expensed. The RDT&E programs support modernization of weapon systems through military research, exploratory development and the development and testing of prototypes and full-scale preproduction of hardware.

Investment (procurement) and construction accounts are used for specific purposes approved by and reportable to Congress. These accounts are used for the acquisition or construction of technology, property, and infrastructures.

Revenue and expenses were reduced by \$1.8 billion, and receivables and payables were offset by \$479 million as a result of eliminating intra-Air Force transactions (see Note 29).

(2) Trust Funds. The Air Force trust funds are endowment or revolving funds. These accounts are used to record the receipt and outlay of funds held in trust by the government for use in carrying out specific purposes or programs. The Air Force operates two trust funds.

## Footnotes

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(a) The Air Force Gift Fund is an endowment fund where donors make conditional monetary gifts to the Air Force. Donations to the Air Force are recognized as a financial source upon acceptance of the donated asset, and a revenue is recorded for the value of the increase to the asset account. Obligations and expenditures are made against the Gift Fund for the purposes specified in the gift offer. The use or obligation of Gift Fund receipts is recorded on a cash basis. When specified in the gift offer, these funds are allowed to be invested in marketable securities. Donated property is disclosed in the financial statements.

(b) The Air Force Cadet Fund operates as a local deposit fund account. It is administered by the Superintendent of the Air Force Academy on behalf of the Academy cadets. Each month, monies are deposited into the account from checks and information provided by the Defense Joint Military Pay System (DJMS). The cadet pay office draws checks on this account to pay the various vendors and contractors at the Academy. The advance education funds, which previously were processed through the Cadet Fund, are now paid directly from the Military Personnel Appropriation (3500), and a repayment of indebtedness is established on the cadet Master Military Pay Account (MMPA) in DJMS.

Trust fund revenue of \$14.7 million includes donations and gifts to the Gift Fund and funds received from cadets to reimburse the Cadet Fund for items paid by the Cadet Fund on behalf of the cadets.

(3) Special Funds Receipt Accounts. These accounts are credited with receipts from specific sources, are earmarked by law for a particular purpose, and none of the funds are generated from operations. Special fund expenditure accounts are used to record appropriated amounts of special fund receipts to be expended for special programs in accordance with specific provisions of law.

(4) Deposit Fund Accounts. These accounts generally are used to hold assets whose distribution awaits legal determination or for which the Air Force acts as agent or custodian, and account for unidentified remittances. The Air Force expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown.

For financial reporting purposes under accrual accounting, operating expenses for general fund activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Unexpended appropriations are recorded as equity of the Air Force.

Certain expenses, such as civilian annual leave and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, for the Department's general funds, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the consolidated statement of financial position. The offset is comprised of the accrued amount of such unfunded expenses at year-end.

Annual and multi-year congressional appropriations are supplemented, when authorized, with revenues generated by sales of goods or services through a reimbursable order process. This process allows the seller to increase funds available by the cost of the supplies and/or services ordered by the customer. The reimbursable order process promotes efficiency in providing products and services, and it allows an accurate accounting of resources provided and applied. The authority to obligate is recognized (i.e., obligations may be recorded) when orders from a government entity are accepted or advances from a non-federal entity are received. Obligation authority must be recorded before performance on an order begins. For financial reporting purposes under accrual accounting, revenue is recognized when earned. The cost of goods sold or services provided is recognized when expenses are incurred. Advances received prior to delivery of goods or services are treated as unearned revenue and recorded as a liability of the Air Force.

**F. Accounting for Intra-governmental Activities:**

The Air Force, as an agency of the Federal government, interacts with and is dependent upon the financial activities of the Federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Air Force as though the Agency were a stand-alone entity.

The Air Force's proportionate share of public debt and related expenses of the Federal government are not included. Debt issued by the Federal government and the related interest costs are not apportioned to Federal agencies. The Air Force's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing may ultimately be obtained through the issuance of public debt, interest costs were not capitalized since the Treasury does not allocate interest costs to the benefiting agencies.

The Air Force civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) which includes the Thrift Savings Plan (TSP). Military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS are also covered by Social Security. The Air Force funds a portion of pension benefits under these retirement systems but does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. The Office of Personnel Management (OPM) reports pension benefits and liabilities for CSRS, FERS, and TSP, and DoD reports for MRS.

## Footnotes

In FY 97, the Air Force contributed the following amounts to the retirement plans and Social Security.

	(In thousands)
CSRS	\$ 207,047
FERS	283,240
MEDICARE	265,943
TSP	99,397
MRS	3,091,962
Social Security	1,398,614
Total	<u><u>\$5,346,203</u></u>

In FY 97, the Department or its components sold assets to foreign governments 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, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales.

### **G. Funds with the U.S. Treasury and Cash:**

The Treasury maintains Air Force appropriations in separate accounts in which it records warrants, receipts, and disbursements. As of September 30, 1997, the Air Force had \$44.9 billion in entity and non-entity funds with the Treasury. During the fiscal year, the Air Force also has the use of various suspense accounts to record collections and disbursements which are rejected in the report edit process pending further research. Treasury requires suspense accounts be closed at year end, prior to submission of September 30th reports. The Air Force operation and maintenance account is used to close most suspense accounts. Suspense balances are reopened at the beginning of the next fiscal year.

As agents of the U.S. Treasury Department, disbursing officers (DOs) maintain monthly Standard Form 1219, Statement of Accountability, that portrays their cash accountability to the Treasury. The majority of DOs' cash accountability is actual operating or accommodation/ exchange "cash" either acquired by Treasury check issue or by collection from customers. However, portions of the total FY 97 cash accountability shown on a disbursing officer's Statement of Accountability, SF 1219, includes advances to contractors under advance payment pool agreements. These advances do not represent Air Force funds and are reported as Non-Entity Assets, Other. The amount of total DO cash accountability included in the FY 97 statement as a liability to Treasury is \$171 million (including advances to contractors).

### **H. Foreign Currency:**

The Air Force purchases foreign currency to use in its operations, when appropriate. The Air Force does not purchase foreign currency for investment purposes.

The Air Force conducts a significant portion of its operations overseas. Gains and losses from foreign currency transactions occur in five general fund appropriations (operation and maintenance, military construction, family housing operation and maintenance, family housing construction, and military personnel). These gains and losses are recognized and reported in the statement of operations as current year transactions not reported separately for the operations accounts. The gains or losses are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year. During FY 97, the Air Force recognized a net gain of \$3.1 million for military personnel due to foreign currency transactions. Gains accumulating over time in these accounts are not available for other uses. Accumulated gains are retained to fund future anticipated foreign currency losses or are recalled to 97X0801 by OSD. The other four appropriations recognized a net loss of \$265 million. Similar gains and losses from other appropriations are not recognized in the Statement of Operations and Changes in Net Position. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations.

**I. Accounts Receivable:**

As presented in the Consolidated Statement of Financial Position, accountsreceivable include accounts, claims, and refunds receivable. Allowances for uncollectible accounts are based upon analysis of collection experience by fund type. During FY 97, the Department wrote off approximately \$7.5 million in uncollectible receivables. See Note 5 for current year receivables and allowances for doubtful accounts.

**J. Loans Receivable:** Not applicable

**K. Inventories:**

Inventories, including operating supplies and nonconsumable items, are valued at latest acquisition cost as required by DoD accounting policies. Although current accounting standards require that inventories be valued at actual cost, the Standard Base Supply System was not designed to do this. Generally, inventory prices are based on prices paid for recently acquired items plus appropriate surcharges. No gains or losses are recognized in the Consolidated Statement of Operations as a result of changes in valuation for general fund operating supplies and materials. Such changes are reflected in the asset valuations and related invested capital as reported in the Statement of Financial Position. In FY 96, operating materials and supplies (OM&S) were combined with war reserve material and reported as inventory. In FY 97, a new line was added to the Statement of Financial Position to break out war reserve material from OM&S. The Air Force reports no inventory that is held for sale. Inventory reported on the Statement of Financial Position, valued at \$1.6 billion, represents excess, obsolete, and unserviceable materials (see Note 8). War reserve material is separately reported at \$38.7 billion. (Operating materials and supplies are included in war reserve materials.)

## Footnotes

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### **L. Investments in U.S. Government Securities:**

The Air Force Gift Fund was established to control and account for the disbursement and use of monies donated to the Air Force and the receipt of interest or dividends arising from investment of such donations. The Gift Fund accepts certain gifts offered by the public. Among these are monetary gifts which are accounted for by DFAS-DE. The amount of investments represents federal securities controlled by DFAS-DE. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor. The intent is to hold investments to maturity unless they are needed to finance purchases in accordance with the donor's intent. No provision is made to amortize premiums or discounts on these securities because, in the majority of cases, they are held to maturity and such amounts are deemed immaterial. As of September 30, 1997, \$.9 million of investments at cost (par value less unamortized discount) in U.S. securities were included in the Gift Fund.

### **M. Property and Equipment:**

Valuations for equipment, aircraft, missiles, and engines are not based on historical procurement cost. Rather, these assets and weapon systems are valued and reported at latest acquisition procurement cost. Satellite costs or values are obtained from the respective Selected Acquisition Report (SAR) for each satellite accepted from the contractor via the Material Inspection and Receiving Document, DD Form 250 (process/production/storage costs). In addition, the actual launch and operational orbit cost will be added to these costs to obtain full satellite values. Equipment is valued at acquisition cost using federal stock categories. While no gains or losses are recognized in the Statement of Operations and Changes in Net Position for changes in latest acquisition cost or SAR values of equipment, such changes are reflected in asset valuations and related invested capital.

Land and facilities are valued at cost. Buildings are capitalized when constructed or at the date of acquisition. Some improvements to land and buildings costing as little as \$15,000 (included in WIMS) are currently being capitalized by the Air Force. This is contrary to DFAS directed policy which requires improvements to be capitalized only if the cost equals or exceeds \$100,000 and extends the useful life by two or more years. In FY 97, the Work Information Management System (WIMS) was modified to identify general funds and working capital funds properties when a joint occupant/tenant relationship existed. DoD 7000.14-R Financial Management Regulation, Volume 11B, requires buildings and facilities to be segregated based on preponderant use when a joint occupant/tenant relationship exists. However, some bases did not complete the required reviews to segregate these facilities.

Prior audits of financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for older property for which original acquisition records are no longer available is not cost effective, especially considering the number and age of many of DoD's properties. As a reasonable solution to this dilemma, when original records to support the acquisition cost of property are no longer available, recorded valuations of property, or other available information if the value has not been formally recorded, could be permitted for financial statement purposes when such valuation

represents the best available information. When records are not available to support the original acquisition cost or value of property, the Notes to the principal statements will disclose the method of valuation and the reason for its use.

Routine maintenance and repair costs are expensed when incurred. No depreciation has been recorded for general fund equipment and buildings (see Note 15).

**Capitalization of Assets:** The Air Force followed the criteria for capitalization of personal property assets contained in DoD 7000.14-R. This guidance required capitalization of all assets with a useful life of two or more years and an acquisition cost of \$5,000 or more. In September 1992, the Air Force received direction from the Acting Comptroller of the Department of Defense to change this requirement (retroactive to October 1, 1991) to capitalize assets with a useful life of two years or more and an acquisition cost equal to or exceeding the expense/investment funding threshold used by Congress for appropriating DoD operating (expense) and procurement (investment) appropriations. With the enactment of the Department of Defense Appropriations Act of 1996, the current acquisition cost increased to \$100,000 or more. During FY 96, the Air Force changed the property, plant, and equipment systems (except for WIMS) and regulatory documents to implement the \$100,000 threshold.

**Valuation of Assets:** All fixed assets, including land held in public domain, are valued at acquisition cost. Acquisition cost includes such costs as purchase price, brokers' commissions, fees for examining and recording the title, surveying, razing and removal costs (less salvage proceeds) of structures on the land, transportation, handling and storage, installation, interest, preparation, labor, engineering, appropriate share of the cost of equipment and facilities used in construction, inspections, supervision, legal recording fees, and other related costs of obtaining the property. When the acquisition cost cannot be determined, fair market value at the time of acquisition is used.

The various criteria used to establish the fair market value are:

- a. Cash realized in transactions involving the same or similar assets,
- b. Quoted market prices,
- c. Fair market value of other assets or services received in exchange of property, or
- d. Independent appraisals.

Routine maintenance and repair costs are expensed when incurred.

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), section 120(h)(3), implementation continues to hamper the Federal Government's ability to deed property. Consequently, only 7,096 acres have been permanently transferred to new civilian owners or other federal agencies. Substantial economic recovery has been achieved by leasing property on interim and long-term bases. Currently, 12,345 acres of the property are under interim lease, and 36,959 acres of the property are under long-term lease. Three Economic Development Conveyances (EDCs) were completed during FY 97: (1) Loring AFB, Maine, a no-cost rural EDC covering 3,699 acres and 761 buildings; (2) Myrtle Beach AFB, South

## Footnotes

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Carolina, yielding \$8.5 million over the next 15 years covering 432.66 acres and 136 buildings; (3) Kelly AFB, Texas, yielding \$108 million over the next 48 years covering 1,873 acres and 434 buildings (about 33% of the EDC property to be leased back to the federal government for continued federal requirements). In FY 97, the Air Force reported real estate sales of \$6.9 million which will be considered for transfer to the BRAC accounts during FY 98. In addition, pending sales expected to yield in excess of \$30 million await issuance of a deed. The delays are primarily CERCLA 120(h)(3) delays. Until then, the properties, with minor exception, are being leased to the future owners at no cost. That affords full program implementation by the new owners while they await formal deeding of the property. In return, the Air Force is relieved of the financial responsibility for protection and maintenance of the property. Any transactions resulting in permanent transfers will appear as reductions in the FY 98 Air Force inventory due to the lag time in recording inventory adjustments.

No income from the sale or lease of real or related personal property was deposited into or redistributed from the special Office of the Secretary of Defense Base Closure Account (BCA), Parts I or II, during FY 97. The accounts (Parts I and II) were created by Public Law 100-526 (1988 Act) and Public Law 101-510 (1990 Act), respectively, to handle receipts and disbursements in connection with base closure, realignment, and disposal. Financial transactions were initiated in the opening days of FY 97 to transfer \$1.5 million and \$4.2 million to Parts I and II, respectively. In excess of \$2.5 million of earnest money deposits remain in an Air Force suspense account awaiting formal deeding of the properties. Unfortunately, none of the transfers of funds initiated early in FY 97 resulted in actual transfers due to procedural problems involving the financial accounting and transfer processes. Upon closure of the transaction, the earnest money and remaining balance received will be transferred to the BRAC account.

**Medical Funding** Funding for all components in DoD is accomplished through the Defense Health Program appropriation with an amount allocated to the Air Force. Any fixed assets purchased with these funds, if they meet the capitalization criteria, are commingled with assets purchased with other Air Force appropriations and are included in those amounts. Materiel in stores, real property, and equipment in the medical care program remain on the general funds financial statements.

### **N. Prepaid and Deferred Charges:**

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

### **O. Leases:**

Prior to FY 97, all leases were recorded as operating leases, contracted for annually, and paid by the annual operation and maintenance appropriation. The Air Force has now identified 11 capital leases (see Note 18).

The Air Force owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are normally funded with appropriated funds. Title is retained by the host country at the time the treaty expires.

**P. Contingencies:**

By their nature, DoD accounting policies are a blend of budgetary and proprietary rules. Applicable directives require the Air Force to report and disclose contingencies in budgetary and proprietary accounts. Overall, unfunded liabilities cannot be liquidated without the enactment of an appropriation. Budgetary contingencies are indicated below. See Note 30 for proprietary contingencies (contingent liabilities).

**Budgetary Contingencies** Air Force budgetary contingencies include undelivered orders outstanding, commitments, and unfilled orders outstanding. See Note 1.V. for information on undelivered orders outstanding.

DoD accounting guidance, in conformance with requirements imposed by OMB, requires that all procurement, military construction, and RDT&E accounts report budgetary contingencies meeting the definition of budgetary commitments. Air Force also reports budgetary commitments for operation and maintenance accounts. Budgetary commitments are administrative reservations of appropriated funds. The purpose of budgetary commitments is to improve obligation accounting and reduce the possibility of the overobligation of appropriated funds.

The Air Force had a total of \$2.3 billion in commitments at the end of FY 97 in expired, unexpired, and closed accounts. This amount is not reported in financial statements and includes amounts for future settlement of contract award fees and contract disputes.

Unfilled orders outstanding represent reimbursable orders received for which supplies or services have not been delivered to the ordering agency. Except for sale from inventory items, unfilled orders at fiscal year end have been obligated. Unfilled orders outstanding at the end of FY 97 totaled \$1.2 billion in unexpired, expired, and closed accounts.

The National Defense Authorization Act for FY 92 enacted Sections 1174a and 1175, Title 10, United States Code which authorized the Special Separation Benefit (SSB) and Voluntary Separation Incentive (VSI) programs. These programs offer eligible military members special benefits associated with separation from active duty and voluntary appointment, enlistment, or transfer to a Reserve component. The SSB transactions are paid from the current military personnel appropriation. All VSI payments made after December 31, 1992, are paid from a "Voluntary Separation Incentive Fund" established by the Department of the Treasury. The fund is used to accumulate amounts needed to finance, on an actuarially sound basis liabilities accrued under the VSI Program. The DoD Board of Actuaries determines the present value of the future benefits payable to persons who separate under VSI. The Board also determines an amortization schedule for liquidating these new unfunded liabilities.

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See Note 31 for FY 97 SSB and VSI payments to military members and voluntary separation incentive payments (VSIP) to civilians.

### **Q. Accrued Leave:**

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick leave and other types of nonvested leave are expensed as taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

### **R. Equity:**

Equity consists of unexpended appropriations, invested capital, donations, and cumulative results of operations less unfunded liabilities (future funding requirements).

Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, as well as amounts obligated for which neither legal liabilities for payments have been incurred nor actual payments made. See Note 20.G. for fund balance detail.

Invested capital, as presented in the consolidated Statement of Financial Position, represents the value of the Department's capital assets which consist of progress payments (advances), inventory (operating materials and supplies), war reserves, and property and equipment.

Donations (other equity) represent the value of donated assets on hand.

Cumulative results of operations represent the contra to accrued public receivables not included in the appropriated status of funds database less allowance for uncollectible receivables.

### **S. Aircraft and Satellite Crashes:**

The cost of aircraft which were either destroyed or damaged beyond repair due to aviation mishaps in FY 97 involved 24 aircraft valued at \$640.9 million, as reported by the Air Force Safety Office. In FY 96, 20 aircraft valued at \$309.3 million were destroyed. The related FY 97 Air Force cost for flight injuries was \$19.7 million. There were 7 missiles valued at \$14.3 million destroyed in FY 97. One space satellite was destroyed in FY 97 valued at \$45.4 million. The associated loss impacted both asset and equity accounts. No loss was separately recognized for aircraft damaged by accidents that were repairable. Costs associated with repair of such aircraft are recorded as operating expenses and generally funded from operation and maintenance appropriations.

### **T. Treaties for Use of Foreign Bases:**

The Air Force has the use of land, buildings, and other facilities which are located overseas and were obtained through various international treaties and agreements negotiated by the Department

of State. Generally, treaty terms allow the Air Force continued use of these properties until the treaties expire. Capital investments in buildings, runways, aircraft shelters, and other facilities located on the overseas bases are capitalized. As of September 30, 1997, the Air Force had not finalized the cost values of buildings and facilities located in foreign countries. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for continued use by the Air Force. In the event these treaties or agreements are terminated, losses will be recorded for the value of non-retrievable capital assets.

**U. Comparative Data:**

Comparative data is based on prior issued reports and has not been restated for prior period adjustments except for the change in allocation between War Reserves and Inventory.

**V. Undelivered Orders:**

Undelivered orders outstanding represent amounts ordered but not received and thus do not represent a liability for payment. Undelivered orders outstanding at the end of FY 97 totaled \$34.8 billion in unexpired, expired, and closed accounts.

Undelivered orders reflected in Note 20 were reduced by \$1.2 billion for unfilled orders where Air Force has not performed or earned the reimbursement. Also, undelivered orders in closed accounts are not included in the financial statements.

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### **Note 2. Fund Balances with Treasury (in thousands):**

#### A. Fund and Account Balances.

	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Entity Assets</u>		<u>Total</u>
			<u>Appropriated Funds</u>	<u>Other Fund Types</u>	
Unobligated Balance Available:					
Available	\$1,071		\$5,326,616		\$5,327,687
Restricted			1,903,797		1,903,797
Reserve for Anticipated Resources					
Obligated (but not expensed)	255		37,589,557		37,589,812
Unfunded Contract Authority					
Unused Borrowing Authority					
Treasury Balance	<u>\$1,326</u>	<u>\$0</u>	<u>\$44,819,970</u>	<u>\$0</u>	<u>\$44,821,296</u>

#### B. Other Information:

	<u>Trust Funds</u>	<u>Revolving Funds</u>	<u>Non-Entity Assets</u>		<u>Total</u>
			<u>Appropriated Funds</u>	<u>Other Fund Types</u>	
Beginning Balance	\$0	\$0	\$1,169	\$45,369	\$46,538
Funds Collected	0	0	0	4,354,685	4,354,685
Funds Disbursed	<u>0</u>	<u>0</u>	<u>716</u>	<u>4,368,092</u>	<u>4,368,808</u>
Ending Balance	<u>\$0</u>	<u>\$0</u>	<u>\$453</u>	<u>\$31,962</u>	<u>\$32,415</u>

Entity assets for appropriated funds include \$17.3 million in extended availability of closing account 57 0/2 3020. Congress authorized the Air Force to retain this amount until satellite on-orbit fees are paid.

The fund balances of canceled and closed accounts that have been reopened for the processing of adjustments total \$6 billion but are not included in the amount reported on this line.

**Note 3. Cash, Foreign Currency, and Other Monetary Assets (in thousands):**

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash		\$ 97,870
B. Foreign Currency		25,961
C. Other Monetary Assets		
(1) Gold		
(2) Special Drawing Rights		
(3) US Reserves in the International Monetary Fund		
(4) Other		
(5) Total Other Monetary Assets		
D. Total Cash, Foreign Currency and Other Monetary Assets	<u>\$ 0</u>	<u>\$ 123,831</u>

E. Other Information: For FY 97, guidance was changed in regard to the classification of disbursing officers' cash. For FY 97, all cash is classified as non-entity. For FY 96, imprest funds were reflected as entity cash.

**Note 4. Investments (in thousands):**

	(1)	(2)	(3)	(4)	(5)
	<u>Cost</u>	<u>Market Value</u>	<u>Amorti- zation Method</u>	<u>Amortized Premium/ (Discount)</u>	<u>Investments Net</u>
A. Intragovernmental Securities:					
(1) Marketable	\$ 949	0		0	\$ 949
(2) Non-Marketable Par Value	0	0		0	0
(3) Non-Marketable Market Based	0	0		0	0
Subtotal	<u>\$ 949</u>	<u>0</u>		<u>0</u>	<u>\$ 949</u>
B. Governmental Securities:					
(1) Not applicable					
(2)					
(3)					
Subtotal	<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>
Total	<u>\$ 949</u>	<u>0</u>		<u>0</u>	<u>\$ 949</u>

C. Other Information: Premiums and discounts are not amortized. Cost is reported net of discounts. See Note 1.L. for other information on investments.

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### Note 5. Accounts Receivable, Net (in thousands):

	(1) Gross Amount <u>Due</u>	(2) Allowance For Estimated <u>Uncollectibles</u>	(3) Allowance Method Used (see <u>below</u> *)	(4) Net Amount <u>Due</u>
A. Entity Receivables:				
Intragovernmental	\$ 991,346	\$ 0		\$ 991,346
Governmental	\$ 322,736	\$ 3,218		\$ 319,518
B. Non-Entity Receivables:				
Intragovernmental	\$ 0	\$ 0		\$ 0
Governmental	\$ 38,521	\$ 7,235		\$ 31,286

\*The departmental allowance for entity public receivables is computed each year. It is based on the average percent of write-offs to outstanding public accounts receivable for the last five years.

C. Other Information: As presented in the Consolidated Statement of Financial Position, accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts (amounts owed by former service members), contractor debt, and unused travel tickets. See Note 29 for amounts associated with intrafund eliminations. Canceled accounts receivable are reported as non-entity receivables because, when collected, these amounts are deposited into a Treasury miscellaneous receipt account. Closed accounts receivable balances are not reliable. An increase in accounts receivable, public, from the selected balances for accrual reporting, HAF-ACF(M)7184 Report, is the primary current year increase in line 1.b.(2).

### Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands):

A. Other Entity Assets: Not applicable

B. Other Information: None

C. Other Non-entity Assets:

1. Federal (Intragovernmental): Not applicable

2. Non-Federal (Governmental)

(a) Cash Advances to Contractors and Travel Advances	\$ 48,245
Total	\$ 48,245

D. Other Information: This line includes \$47.2 million in advances to contractors as reported on SF 1219, Statement of Accountability. Of that total, \$45 million is being reported for advance pool payments to Massachusetts Institute of Technology for research purposes.

**Note 7. Loans and Loan Guarantees, Non-Federal Borrowers:**

The Air Force did not have loans or loan guarantees to report for FY 97 (see Note 1.J).

**Note 8. Inventory, Net (in thousands):**

	(1) Inventory <u>Amount</u>	(2) Allowance <u>For Losses</u>	(3) Inventory, <u>Net</u>	(4) Valuation <u>Method</u>
A. Inventory Categories:				
(1) Held for Current Sale	0	0	0	
(2) Held in Reserve for Future Sale	0	0	0	
(3) Excess, Obsolete and Unserviceable	\$ 1,628,051	0	\$ 1,628,051	Latest Acquisition Cost
(4) Held for Repair		0		
Total	<u>\$ 1,628,051</u>	<u>0</u>	<u>\$ 1,628,051</u>	

B. Restrictions on Inventories: None

C. Other Information: See Note 31, Inventory and War Reserves.

**Note 9. Work-in-Process (Personal Property):**

The Air Force has no work-in-process.

**Note 10. Operating Materials and Supplies (OM&S), Net (in thousands):**

The Air Force did not report operating materials and supplies. (Ammunition and supplies are reported under War Reserves.)

**Note 11. Stockpile Materials:**

The Air Force did not report stockpile materials.

**Note 12. Seized Property:**

The Air Force did not report seized property.

**Note 13. Forfeited Property, Net:**

The Air Force did not report forfeited property.

**Note 14. Goods Held Under Price Support and Stabilization Programs, Net:**

The Air Force did not report goods held under price support and stabilization programs.

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### Note 15. Property, Plant and Equipment, Net ( in thousands):

	(1) Depreci- ation <u>Method</u>	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
A. Land	See		\$ 287,538		\$ 287,538
B. Structures, Facilities, & Leasehold Improvements	Notes 1-D &		40,432,015		40,432,015
C. Military Equipment	1-M		204,119,110		204,119,110
D. ADP Software					
E. Equipment					
F. Assets Under Capital Lease	(See Note 18)				
G. Other					
H. Natural Resources					
I. Construction in Progress			<u>4,310,970</u>		<u>4,310,970</u>
Total			<u>\$249,149,633</u>		<u>\$249,149,633</u>

#### J. Other Information:

(1) The increase in the capitalization criteria from \$50,000 to \$100,000 as required by the Department of Defense Appropriations Act of 1996 resulted in decapitalization (decrease) of various property, plant, and equipment assets due to the inability of systems to incorporate both the old and new criteria. The amount of this decapitalization is indeterminable.

(2) Weapon System Valuation Project. During FY 92, the Air Force began a project to revalue the recorded costs of weapon systems. The basic thrust of the project was to update the weapon systems listed in the Air Force Materiel Command (AFMC) technical manual, TO 00-25-30, Unit Cost of Aircraft, Guided Missiles, and Engines. This publication was last revised on May 15, 1983. However, as of September 30, 1997, weapon systems still had not been revalued based on actual acquisition costs. Major computer system changes would be required to capture and report actual costs for weapon systems. In November 1995, the Federal Accounting Standards Advisory Board (FASAB) issued its final Statement on Accounting for Property, Plant, and Equipment. According to this publication, weapon systems will be reported through a stewardship report in the future rather than on financial statements required by the CFO Act. This standard will be implemented in FY 98 as required by FASAB guidance.

(3) Donated Real Property (non-monetary). Donated real property value is the estimated value of any right, title, or interest in land and buildings, fixed improvements, utilities, and other permanent type additions to land donated to the Air Force. The balance reported at the end of FY 96 was \$216 million; \$179 million was reported at the end of FY 97.

(4) Other Donations to the Air Force (non-monetary):

a. Artwork. Air Force physically accounts for approximately 7,700 pieces of artwork. The value of artwork, in most cases, will not exceed the current capitalization criteria of \$100,000.

b. Museum Items. Items donated to the Air Force Museum Program are recorded in the financial records with all other museum items. The Colonel Richard Gimbel Aeronautical Collection at the United States Air Force Academy is separately maintained by the Academy.

c. Foreign Gifts. The value of foreign gifts is not recorded in the financial statements because Air Force ownership of these gifts was not established.

(5) Construction-in-progress (real property) costs are obtained from the Base Civil Engineers (BCE) Current Month Cost Report (for account codes 80010, 80020, 83000, and 84000) and the Allotment Ledger (for Military Family Housing using fund code 83, projects 72291 and 72292, and fund code 89, projects 711 and 713). Construction-in-progress costs are also collected from the Army Corps of Engineers and the Navy Facilities Engineering Command for Air Force funded projects. These costs are entered into the general ledger by the DFAS Denver Center.

(6) Aircraft and Missiles. Aircraft that have "no operational value" and are awaiting salvage are valued at full cost minus standard price for parts removed. This method establishes aircraft values at various levels from fully operational to scrap, thus reporting more accurate asset values. This valuation method has been implemented for aircraft reported in GLA 147, Excess and Surplus Property. As the Inter-Continental Ballistic Missiles (ICBMs) are removed from active inventory status in accordance with SALT, START, and other treaties, their accountability is removed from the Equipment Inventory, Multiple Status and Utilization Reporting System (EIMSURS). The missiles are then dismantled and reported, by stages, in the Missile Motor Tracking Reporting System (MMTRS) at Hill AFB, Utah. The Air Force currently has 1,751 stages (motors) valued at \$1.0 billion available that are being used in the Rocket System Launch Program and various other programs. In the past, some of these motors had been reported as missiles complete. This is the first year these missile motors have been reported. The extra Cruise Missile motors are not currently being reported in the Air Force financial statements because costs and locations have not been identified.

a. During FY 97, 223 aircraft valued at \$1.43 billion and 297 missiles valued at \$353 million were terminated from the Air Force inventory. These inventory terminations include the aircraft and satellite crashes indicated in Note 1.S.

b. As of September 30, 1997, the Equipment Inventory, Multiple Status and Utilization Reporting System (EIMSURS), reflected 3,234 aircraft in the possession/control of MTC (Air Force Material Command). Of these, 863 aircraft valued at \$3.9 billion were in various stages of storage. In addition, 1,207 aircraft with an original value of \$6.4 billion were in non-operational status. Parts totaling \$2.7 billion have been removed from these 1,207 aircraft. AFMC also had 958 missiles of which 116 valued at \$166 million were in non-operational use status.

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(7) Uninstalled Engines - Aircraft and Guided Missiles. Currently, the values reported for this account are obtained from the Comprehensive Engine Management System (CEMS) located at Tinker AFB. The values are reported by Tinker AFB to DFAS-DE/ADRO where they are reviewed for accuracy. An adjustment to the values reported was made by DFAS-DE/ADRO based on a letter from SA-ALC/LR Kelly AFB, totaling \$4.2 million, for three T56-9 engine modules (incomplete engines). This amount will continue to be reported as complete aircraft engines until a national stock number can be assigned to each of the three engine modules and accepted by working capital funds. A letter provided to DFAS-DE/ANBG by SA/ALC/LR Kelly AFB, Texas, identifies engines that are considered scrap engines (excess, crashed, and cannibalized) and must be reported in GLA 147, Excess and Surplus Property, at that time. Messages to installations that handle uninstalled propulsion units have been sent directing that intransit engines are to be included in the uninstalled propulsion units account. The method for valuing excess engines is scrap value. CEMS calculates the value of engines and engine modules in the Air Force inventory by multiplying the quantity and unit cost of type-model-series modification. CEMS was found deficient in that unit costs are based on standard costs (latest acquisition costs). This method of valuation is expected to be required by new FASAB standards covering stewardship reporting. Additionally, crashed, cannibalized, and scrap engines were carried at full value in CEMS instead of their decreased value.

(8) Non-operational Aircraft. For FY 97, aircraft are being reported at full value, and as parts are removed (standard price) the aircraft is reduced accordingly. If the standard price for parts removed exceeds the value of the aircraft, the aircraft capitalization is increased.

(9) Government Furnished Property (GFP). Over \$24 billion in GFP is reported this year compared to \$16 billion for FY 96. The dollar values were obtained from six military property GFP GLSAs: aircraft with contractors (14102), missiles with contractors (14202), uninstalled engines with contractors (14302), satellites with contractors (14902), real property with contractors (17104), and special tools/test equipment with contractors (16802). In addition, \$2 billion of government furnished material (GFM) is also included.

a. Special Tool/Special Test Equipment. The data for this GLA were obtained from the Contract Property Management System (CPMS) owned by the Defense Logistics Agency (DLA) and amounted to \$4.5 billion.

b. GFM. The GFM included in the financial statements are based on data received from the Defense Logistics Agency (DLA) which receives property data annually from defense contractors.

(10) Satellites. The quantities and dollar values for satellites are retained and accounted for in the Defense Property Accountability System (DPAS). This system currently cannot record unit costs of over \$1.0 billion dollars. Due to the high unit cost, the Milstar satellites cannot be properly reported and accounted for in this system. In addition, classified satellite data cannot be accounted for in this system. As a result, the Air Force is required to maintain manual records of these satellites, and they are reported in these statements. DFAS-DE has identified three miscellaneous satellites which are not included in the financial statements because values have not yet been assessed.

For FY 97, the Air Force provided, for the first time, quantities and costs for 3 Atlas and 15 Delta satellite launch vehicles valued at \$678 million. The Air Force reported 8 Titan IV launch vehicles valued at \$4.1 billion as part of satellite costs. The Air Force also has 13 Titan IV launch vehicles valued at approximately \$6.7 billion that have not been reported. The Air Force does not consider these vehicles as owned since they have been dedicated to other services for their use.

The Air Force is not currently reporting all satellite quantities and dollar values. Unit costs for several one-of-a-kind and UHF communication satellites are not available. Action to obtain these costs is being addressed and will be reported in FY 98.

(11) Special Tools/Special Test Equipment (ST/STE). Data for this GLSA are obtained from the Requirements Data Bank (D200J) system. For FY 97, the Air Force reported \$41 million of ST/STE in its possession. The Air Force, however, reported that the system contained 126,977 line items without dollar values. Equipment managers through the Air Force are working to resolve this issue. Consequently, this account is substantially understated.

(12) Property, Plant, and Equipment increase of 1.2% in FY 97 is attributable, in part, to recording of satellite launch vehicles not previously reported.

(13) Property, Plant, and Equipment not included on FY 97 financial statements:

a. Extra cruise (ALCM) missile motors removed from active inventory are not all being reported in CEMS. The knowledge that these engines existed was received too late to investigate and determine a number and value for inclusion in the financial statements.

b. Unmanned Aerial Vehicles (UAV). Although this is a relatively new program to the Air Force, several different types of UAV are currently being used. These assets will be evaluated for inclusion in the FY 98 financial statements.

c. Mockups and test sets, which could be in excess of \$1 billion, are not being reported.

d. Fire trucks and refuelers, with a total value of at least \$189 million, are substantially understated due to a pricing error.

e. B2 simulators that may not have been reported have been identified and are valued at \$1.46 billion. This amount was not included in the financial statements due to the possibility of duplicate reporting. Most simulators have been turned over to contractors for Air Force training. Annually, these contractors are required to report equipment in their possession. This issue is currently being researched to ensure that contractors are reporting these assets.

(14) Refer to Note 31 under the heading "Equipment Not in Use."

(15) The Air Force does not have any open timber sale contracts spanning more than one year. Consequently, the value of timber assets cannot be determined until a contract is awarded. When

## Footnotes

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a large sale (contract) is awarded spanning more than one year and the value of timber is identified, this value will be reported as required.

### **Note 16. Debt:**

The Air Force did not report borrowing from the Treasury, Federal Financing Bank, or from other Federal agencies, or agency debt issued by Federal Housing Administration or Tennessee Valley Authority bonds.

**Note 17. Other Liabilities (in thousands):**

## A. Other Liabilities Covered by Budgetary Resources:

	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
Unearned Revenue		\$ 364,182	\$ 364,182
DO Treasury Cash		171,021	171,021
Total	<u>\$ 0</u>	<u>\$ 535,203</u>	<u>\$ 535,203</u>
2. Governmental			
Unearned Revenue	<u>\$ 0</u>	<u>\$ 5,376</u>	<u>\$ 5,376</u>

B. Other Information: The decrease in unearned revenue (advance collections) is reflected in budgetary data in six of the seven appropriations reporting. A detailed explanation of this change cannot be determined departmentally.

## C. Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental:			
Accrued Closed Years Accounts			
Payable	\$ 0	\$ 125,214	\$ 125,214
Unemployment Benefits	32,879	8,519	41,398
Workers' Comp Reimbursements to Department of Labor	145,233	116,141	261,374
Voluntary Separation Incentive Cost	223,300	44,700	268,000
Total	<u>\$ 401,412</u>	<u>\$ 294,574</u>	<u>\$ 695,986</u>
2. Governmental:			
Accrued Unfunded Exp:			
Civilian Annual Leave		\$ 94,464	\$ 94,464
Military Annual Leave		968,569	968,569
Closed Years Accounts Payable		293,485	293,485
Loss from Claims and Litigation, AF		263,000	263,000
Loss from Claims and Litigation, Base Level		36,600	36,600
Environmental Cleanup Costs			
Air Force	\$ 4,573,100	376,900	4,950,000
BRAC (DoD)	1,071,159	263,503	1,334,662
Total	<u>\$ 5,644,259</u>	<u>\$ 2,296,521</u>	<u>\$ 7,940,780</u>

## Footnotes

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D. Other Information: The amounts included in the FY 98 budget for environmental cleanup, unemployment benefits, and voluntary separation incentive (VSI) costs are reported as current liabilities with the balance reported as non-current liabilities. The Air Force expense/VSI costs upon transferring funds from the Military Personnel account to the OSD Trust Fund account to pay the Air Force VSI liability. No amounts were reported for line 5.a(3) for FY 96 because data were not available.

### **Note 18. Leases:**

The Air Force Real Estate Agency (AFREA) has identified 11 real property leases that are capital leases according to the criteria contained in Statement of Federal Financial Accounting Standard Number 5 (SFFAS No. 5) and DoD Financial Management Regulation (FMR) 7000.14-R. All of the identified leases are Section 801 Military Family Housing leases entered into prior to 1993.

The methodology for reporting the information needed for the Air Force Consolidated Financial Statements is still in development; therefore, data needed in order to properly record these capital leases are inadequate at this time.

Preliminary data indicate unrecorded capital lease assets of \$490.3 million. The liability related to these capital lease assets cannot be estimated at this time. Capital lease liability payments in FY 97 were \$43.4 million and are estimated at \$44.1 million for FY 98. These payments include taxes and insurance when applicable.

The Air Force also has use of leased land, buildings, and other facilities which were reported as operating leases in FY 96 and prior. The figures below represent operating leases for Air Force leased facilities in the U.S. and overseas (applicable to active Air Force, Air Force Reserves, and National Guard) including Pentagon and GSA space. The FY 97 amount is reported as part of current expenses reflected in Note 23.

	(Thousands)
<u>Fiscal Year</u>	<u>Land &amp; Building</u>
Year 1997	\$ 6,449
Year 1998	6,310
Year 1999	5,329
Total Lease Payments	<u>\$ 18,088</u>

**Note 19. Pensions and Other Actuarial Liabilities (in thousands):**

	(1)	(2)	(3)	(4)
	Actuarial Present Value of Projected <u>Plan Benefits</u>	Assumed Interest Rate(%) <u>Rate(%)</u>	Assets Available to Pay Benefits <u>Benefits</u>	Unfunded Actuarial Liability <u>Liability</u>
A. Pension and Health Plans:				
B. Insurance/Annuity Programs:				
1. Workers' Compensation Benefits	\$1,042,203	See Below		\$1,042,203
C. Other:				
D. Total Lines A+B+C:	<u>\$1,042,203</u>			<u>\$1,042,203</u>

E. Other Information: Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's June 10, 1997, economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

6.24% in year 1  
5.82% in year 2  
5.60% in year 3  
5.45% in year 4  
5.40% in year 5 and thereafter

## Footnotes

### Note 20. Net Position (in thousands):

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended				
Appropriations:				
(1) Unobligated				
a. Available	\$0	\$0	\$5,326,617	\$5,326,617
b. Unavailable	0	0	1,903,797	1,903,797
(2) Undelivered Orders	0	0	31,881,442	31,881,442
B. Invested Capital	0	0	297,300,669	297,300,669
C. Cumulative Results				
of Operations	0	0	198,523	198,523
D. Other	0	2,044	0	2,044
E. Future Funding				
Requirements	0	0	(9,678,969)	(9,678,969)
See G.(4) below				
F. Total	<u>\$0</u>	<u>\$2,044</u>	<u>\$326,932,079</u>	<u>\$326,934,123</u>

G. Other Information: The Air Force's net position, as presented above, consists of Unexpended Appropriations, Invested Capital, Cumulative Results of Operations, and Other Net Position, less Future Funding Requirements.

(1) Unexpended Appropriations and Other represent amounts of funding authority which were not obligated, rescinded, or withheld pending withdrawal, and amounts obligated but unpaid. (More specifically, unexpended appropriation balances are those amounts of currently available funds which are not classified as accrued expenditures unpaid or accrued expenditures paid.) Undelivered orders were reduced by the amount of unfilled customer orders.

(2) Invested Capital, as presented in the Consolidated Statement of Financial Position, represents the value of the Air Force's capital assets. These capital assets are classified as advances and prepayments (personal property work-in-progress), operating materials and supplies, inventory, war reserves, and property and equipment. Increases to capital assets and invested capital are recorded when such capital assets are acquired or constructed (see Note 15), or when asset valuations increase as a result of increases in standard prices/costs. Decreases occur when such capital assets are consumed in operations or otherwise disposed of. Assets transferred without reimbursement similarly affect capital assets and the contra invested capital amount.

(3) Cumulative Results of Operations represents the net contra amount to accrued receivables not in Status of Funds database, less allowance for uncollectible accounts and departmentally computed allowance for uncollectible accounts.

(4) Future Funding Requirements represent the accumulated effect of unfunded expenses.

**Footnotes**

Future Funding Requirements (in thousands):	
(a) Actuarial Liabilities	\$1,042,203
(b) Non-Actuarial Liabilities:	
(1) Employee Separation Cost	268,000
(2) Unemployment Cost	41,398
(3) Workers' Comp Reimbursement to DOL	261,374
(4) Unfunded Accrued Mil & Civ Leave (see note 17C2)	1,063,033
(5) Unfunded Liabilities from Closed years	418,699
(6) Unfunded Accrued Losses on Claims & Litigation	
Air Force	263,000
Base Level	36,600
(7) Environmental Cleanup	
Air Force	4,950,000
BRAC (DoD)	1,334,662
(c) Total Future Funding Requirements	\$9,678,969

**Note 21. Taxes:**

The Air Force did not report tax revenues.

**Note 22. Other Revenues and Financing Sources (in thousands):**

A. Other Revenues and Financing Sources:	<u>1997</u>	<u>1996</u>
Increase in Accrued Public Receivables not in Status of Funds Database	\$ 200,189	Not applicable
Donations to the Gift Fund and Other Revenue to the Trust Funds	622	\$372
Imputed Pension and Other Retirement Benefits (ORB):		
CSRS/FERS Retirement	542,628	
Health	239,018	
Life Insurance	1,164	
Sick Leave Adjustment	690,607	
Other Revenues and Financing Sources	\$1,674,228	\$372

B. Other Information: The \$782.8 million represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Research reveals that field activities had included sick leave in the annual leave amounts reported for previous fiscal years. The decrease is reported as a revenue instead of a negative expense.

## Footnotes

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Actual sick leave amounts included in the FY 96 report are not available, precluding a prior period adjustment. See Note 1.E.(2)(a) for further information on donations to the Gift Fund. An increase in accrued public receivables not in the Status of Funds database is recorded as an other revenue and financing source. A decrease is recorded as an other expense.

Estimated contributions of about \$1 billion by host nations and regional organizations to defray Air Force overseas stationing costs are not included. These contributions consist of salaries to foreign nationals, utilities, family housing construction, military construction, and foregone revenue (e.g., uncollected taxes, duties, rent, etc.).

**Note 23. Program or Operating Expenses (in thousands)**

	<u>1997</u>	<u>1996</u>
A. Operating Expenses by Object Classification:		
1. Personnel Services and Benefits	\$24,297,893	\$24,852,631
2. Travel and Transportation	2,293,447	2,152,830
3. Rental, Communication, and Utilities	1,108,371	1,281,282
4. Printing and Reproduction	49,558	50,782
5. Contractual Services	12,306,541	12,403,351
6. Supplies and Materials	4,670,034	5,239,859
7. Equipment not Capitalized	874,883	1,066,040
8. Grants, Subsidies, and Contributions	26,955	28,811
9. Insurance Claims and Indemnities	39,426	48,055
10. Other		
(a) Unclassified/Unallocated(FY96 includes RDT&E)	60,044	8,724,341
(b) Land/Structure Maintenance	175	810
(c) Refunds	(45)	(892)
(d) Trust Funds	422	345
(e) Operational System Development (RDT&E)	6,733,251	0
(f) Engineering & Manufacturing Development (RDT&E)	4,738,412	0
(g) Demonstration & Validation (RDT&E)	898,772	0
(h) Advanced Development (RDT&E)	632,064	0
(i) Other Development & Undistributed (RDT&E)	<u>257,625</u>	<u>0</u>
11. Total Expenses by Object Class	<u><u>\$58,987,828</u></u>	<u><u>\$55,848,245</u></u>
B. Operating Expenses by Program:		
1. Other Funds and Accounts		
(a) General Funds	\$58,986,733	\$55,847,406
(b) Special Funds	673	494
(c) Deposit Funds	<u>0</u>	<u>0</u>
Subtotal	\$58,987,406	\$55,847,900
(d) Trust Funds		
(1) Cadet Funds	6	0
(2) Gift Funds	<u>416</u>	<u>345</u>
Subtotal	<u>\$422</u>	<u>\$345</u>
Total	<u><u>\$58,987,828</u></u>	<u><u>\$55,848,245</u></u>

C. Other Information: Operating expenses reflect “Net Accrued Expenditures” as identified by the element of expense or the budget program for operating appropriations.

The Statement of Federal Financial Accounting Standards (SFFAS) Number 3 requires that operating materials and supply expenses (item 6 above) be calculated using the consumption

## Footnotes

method. However, this standard is not followed because computer systems used to obtain necessary data were designed as property systems rather than accounting systems. Therefore, supplies and material expense (as reflected in Note 23) and operating expense (as reflected on Line 9 of the Statement of Operations) are understated. This may or may not be material.

### **Note 24. Cost of Goods and Services Sold:**

The Air Force General Funds do not have cost of goods and services sold to report (according to the normal accounting meaning for cost of goods and services sold). However, the Air Force does have a reimbursable program for services rendered and goods furnished. Reimbursable program costs are shown and are offset by earnings from the reimbursable program on line 2.

	<u>1997</u>	<u>1996</u>
Public	\$ 181,231	\$ 227,172
Intragovernmental	<u>2,906,769</u>	<u>2,992,020</u>
Cost of Services Sold	<u><u>\$ 3,088,000</u></u>	<u><u>\$ 3,219,192</u></u>

### **Note 25. Other Expenses (in thousands):**

	<u>1997</u>	<u>1996</u>
A. Other Expenses:		
(1) Equipment lost in crashes	\$ 700,588	\$ 315,131
(2) Unfunded military accrued leave & closed year payables	223,375	135,966
(3) Unfunded actuarial liability, workers' compensation and unemployment benefits	159,019	(15,616)
(4) Discounts lost	2,211	2,945
(5) Unfunded environmental cleanup (AF)	756,000	44,315
(6) Estimated Loss from claims and litigation, Air Force	263,000	
(7) Estimated Loss from claims and litigation, Base Level	36,600	
(8) Correction of reported amount for advances for contractors, suppliers, and travel	3,179	(3,152)
(9) Imputed Pension and Other Retirement Benefits (ORB)		
CSRS/FERS Retirement	542,628	
Health	239,018	
Life Insurance	1,164	
TOTAL	<u><u>\$ 2,926,782</u></u>	<u><u>\$ 479,589</u></u>

B. Other Information: The decrease in accrued public receivables not maintained in the Status of Funds database is recorded as an other expense. An increase is an other revenue and financing source. The \$782.8 million represents the imputed expense for pensions and other retirement

benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

**Note 26. Extraordinary Items:** Not applicable

**Note 27. Prior Period Adjustments (in thousands):**

Adjustment to Invested Capital:		
Property and Equipment		
Decrease in value of aircraft	\$	(52,794)
Adjustment to Cumulative Results of Operations:		
Interest expense from FY 96		(2,570)
Adjustment to Future Funding Requirement:		
Voluntary Separation Incentive		(268,000)
BRAC Environmental Cleanup		(1,547,790)
Workers' Comp Reimbursement to DOL		(145,188)
Unemployment Benefits		(47,634)
Total Prior Period Adjustments	\$	<u>(2,063,976)</u>

**Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands):**

	<u>1997</u>	<u>1996</u>
A. Increases:		
(1) Transfers In		
(2) Unexpended Appropriations	\$72,398,532	\$72,703,924
(3) Donations received		
(4) Other increases	<u>7,778,610</u>	<u>14,438,752</u>
(5) Total increases	\$80,177,142	\$87,142,676
B. Decreases:		
(1) Transfers Out		
(a) Return of closed year authority	\$1,110,472	\$1,419,044
(2) Donations		
(3) Other Decreases	<u>80,266,578</u>	<u>74,219,378</u>
(4) Total Decreases	\$81,377,050	\$75,638,422
C. Net Non-Operating Changes	<u>(\$1,199,908)</u>	<u>\$11,504,254</u>

## Footnotes

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Other Increases:

(1) Net increase in invested capital excluding transfers out (below) and prior period adjustments, see Note 27

<u>\$7,778,610</u>	<u>\$14,438,752</u>
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Other Decreases:

(1) Transfers out of invested capital

\$370,356

(2) Current year expenditures

<u>80,266,578</u>	<u>73,849,022</u>
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(3) Total Other Decreases

<u>\$80,266,578</u>	<u>\$74,219,378</u>
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As the general fund includes 1 year, 2 year, 5 year, and no year appropriations, there were available unexpended appropriations brought forward from FY 96 to cover the excess of FY 97 expenditures over FY 97 appropriations made available.

Unexpended appropriations include the following funding actions:

Budget Authority, SF 133 Line 1 (General Funds)	\$ 72,901,755
Budget Authority, SF 133 Line 1 (Special Funds)	596
Resources in 57 X 0810	1
Net Transfers of Prior Year Balances, SF 133 Line 2B	98,929
Rescissions and Public Laws, SF 133 Lines 6B & 6E	(602,749)
	<u>\$ 72,398,532</u>

**Note 29. Intrafund Eliminations (in thousands):**

Schedule A: Sales within the General Fund activity by transactions (sales or services rendered).

Schedule A

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Receivable</u>	<u>Revenue</u>	Unearned <u>Revenue</u>	<u>Collections</u>
Operation and Maintenance	\$249,357	\$795,743	N/A	\$802,769
Procurement	1,761	15,580	N/A	30,048
Research and Development	227,757	999,583	N/A	1,254,306
Military Construction	0	0	N/A	0
Other Funds and Accounts	58	6,563	N/A	6,515
Unearned Revenue	<u>N/A</u>	<u>N/A</u>	<u>0</u>	<u>N/A</u>
Total	<u>\$478,933</u>	<u>\$1,817,469</u>	<u>\$0</u>	<u>\$2,093,638</u>

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Operation and Maintenance	\$224,607	\$732,691	N/A	\$743,283
Procurement	10,518	68,542	N/A	103,188
Research and Development	236,161	878,405	N/A	1,084,933
Military Construction	733	2,856	N/A	3,256
Other Funds and Accounts	6,914	134,975	N/A	158,978
Advances	<u>N/A</u>	<u>N/A</u>	<u>0</u>	<u>N/A</u>
Total	<u>\$478,933</u>	<u>\$1,817,469</u>	<u>\$0</u>	<u>\$2,093,638</u>

Schedule B: Not applicable

## Footnotes

Schedule C: Sales or services between the Air Force and other DoD reporting entities by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing activity.

### Schedule C

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Department of the Air Force	\$642,696	\$1,885,059	N/A	\$2,126,137
Unearned Revenue	N/A	N/A	\$202,255	N/A
Total	<u>\$642,696</u>	<u>\$1,885,059</u>	<u>\$202,255</u>	<u>\$2,126,137</u>

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Department of the Army	\$34,266	\$133,989	N/A	\$147,693
Department of the Navy	59,619	69,844	N/A	112,496
Army WCF	1,295	35	N/A	0
Navy WCF	1,973	527	N/A	(13)
Air Force WCF	265,647	903,241	N/A	920,257
DLA WCF	17,145	24,812	N/A	20,607
DISA WCF	4,848	7,685	N/A	8,546
DFAS WCF	2,590	35,890	N/A	36,081
DeCA WCF	24,211	20,973	N/A	21,997
JLSC WCF	0	0	N/A	0
US TRANSCOM WCF	0	0	N/A	0
DoD Military Retirement Trust Fund	0	0	N/A	0
National Defense Stockpile	0	0	N/A	0
U.S. Army Corps of Engineers	0	0	N/A	0
Other Defense Organizations	231,102	688,063	N/A	858,473
Advances	N/A	N/A	202,255	N/A
Total	<u>\$642,696</u>	<u>\$1,885,059</u>	<u>\$202,255</u>	<u>\$2,126,137</u>

Schedule D: Sales or services between the Air Force and other U.S. Government reporting entities by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing activity.

## Footnotes

### Schedule D

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Department of the Air Force	\$402,126	\$1,021,710	N/A	\$782,791
Unearned Revenue	N/A	N/A	\$117,792	N/A
<b>Total</b>	<b>\$402,126</b>	<b>\$1,021,710</b>	<b>\$117,792</b>	<b>\$782,791</b>

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Department of Agriculture (T.I. 12)	0	0	N/A	0
Department of Commerce (T.I. 13)	0	0	N/A	0
Department of Interior (T.I. 14)	0	0	N/A	0
Department of Justice (T.I. 15)	0	0	N/A	0
Department of Labor (T.I. 16)	0	0	N/A	0
Department of State (T.I. 19)	0	0	N/A	0
Department of Treasury (T.I. 20)	0	0	N/A	0
Office of Personnel Management (T.I. 24)	0	0	N/A	0
U.S. Nuclear Regulatory Commission (T.I. 31)	0	0	N/A	0
Department of Veterans Affairs (T.I. 36)	0	0	N/A	0
General Services Administration (T.I. 47)	0	0	N/A	0
National Science Foundation (T.I. 49)	0	0	N/A	0
Fed Emergency Management Agency (T.I. 58)	0	0	N/A	0
Environmental Protection Agency (T.I. 68)	0	0	N/A	0
Department of Transportation (T.I. 69)	0	0	N/A	0
Agency for Internat'l Development (T.I. 72)	0	0	N/A	0
Small Business Administration (T.I. 73)	0	0	N/A	0
Dept. of Health and Human Services (T.I. 75)	0	0	N/A	0
Nat'l Aeronautics and Space Admin. (T.I. 80)	\$41,965	\$193,276	N/A	\$245,474
Dept. of Housing & Urban Devel. (T.I. 86)	0	0	N/A	0
Department of Energy (T.I. 89)	0	0	N/A	0
Department of Education (T.I. 91)	0	0	N/A	0
Government Printing Office (T.I. 04)	0	0	N/A	0
Executive Office of the President/Defense				
Security Assistance Agency (T.I. 11)	224,866	421,661	N/A	251,334
Miscellaneous	135,295	406,773	N/A	285,983
Unknown/Unidentifiable (T.I. 00)	0	0	N/A	0
Advances	N/A	N/A	\$117,792	N/A
<b>Total</b>	<b>\$402,126</b>	<b>\$1,021,710</b>	<b>\$117,792</b>	<b>\$782,791</b>

## Footnotes

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### **Note 30. Contingencies:**

Proprietary Contingencies: Proprietary contingencies are commonly referred to as contingent liabilities. If they meet certain requirements, proprietary contingencies are either disclosed in the notes to the financial statements or recorded as liabilities in the principal financial statements. Proprietary contingencies are indicated below. See Note 1.P. for budgetary contingencies.

Unfunded liabilities from “M” and closed years amount to \$419 million. Although closed appropriation liability balances are unreliable it is possible that this liability will be liquidated using current year funding at the time of liquidation.

The Air Force is party to various legal and administrative claims brought against it. Most are tort claims initiated by individuals addressing aircraft and vehicle accidents, medical malpractice, property and environmental damages resulting from Air Force activities, and contract disputes.

Certain legal actions to which the Air Force is named a party are administered and, in some instances, litigated by other Federal agencies. Legal actions to which the Air Force is a litigant are covered by the Federal Tort Claims Act and Chapter 163 (Military Claims) of Title 10, United States Code (U.S.C.). Contingent liabilities of the Air Force under the Tort Claims Act and Chapter 163, Title 10 U.S.C., are \$2,500 and \$100,000 respectively, per occurrence. Settlements in excess of these amounts are paid from the Treasury's Claims, Judgments, and Relief Acts Fund. Under these situations the Treasury's Claims, Judgments, and Relief Acts Fund is not reimbursed by Air Force appropriations, and contingent liabilities arising from legal actions against the Air Force will not materially affect its operations or financial condition. However, the Air Force must reimburse the Treasury's Claims, Judgments, and Relief Acts Fund for claims filed under the Contract Disputes Act.

As of September 30, 1997, the Air Force was a party to 4,288 claims and litigation actions. The total dollar amount demanded for these claims and litigation actions was \$29.7 billion. The total estimated contingent liability for civil law and litigation claims against the Air Force as of September 30, 1997, included 1,647 claims valued at \$263 million. This liability dollar amount recorded in the financial statements is an estimate based on the lowest payout rate for the previous three years. Neither past payments nor the current contingent liability estimate can be used appropriately to project the results of any individual claim. As of September 30, 1997, there were 2,641 claims and litigation actions with a demand total of \$1.83 billion residing at installation level. Information system capability does not exist to track historical payout ratios for cases and claims at this level. However, based on Air Force experience, an estimated loss percentage of approximately 2% is experienced for these types of cases. Therefore, a management estimate for FY 97 probable loss of \$36.6 million is reasonable for the installation level claims and litigation population and has been recorded in the financial statements. The total recorded estimated probable liability amount of \$299.6 million has been included in the accompanying financial statements as an other unfunded expense and as an unfunded liability.

It is uncertain that claims will ever accrue to the Air Force. In addition to the fact that many cases simply lack merit, most claims, even if successful, will not be paid from Air Force accounts.

Rather, judgments are ordinarily paid from the GAO Judgment Fund, not from Air Force accounts even though claims were the result of Air Force operations. In many cases involving attorney fees, the amounts are not known until the last appeal is taken.

The Legal Representation Letter describes contingent liabilities from 8 cases over \$100 million each, totaling \$2.8 billion, which may or may not be paid from the Treasury's Claims, Judgments, and Relief Acts Fund depending on the final outcome. Since Air Force appropriations do not necessarily pay for all judgments or settlements for cases and the probability of payment is unknown, these contingencies from pending cases are not reflected in the financial statements.

As of September 30, 1997, the Air Force was a party to 224 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). The total dollar value of these claims was approximately \$630.7 million which included \$602.1 million in contractor claims. Such claims are funded primarily from Air Force appropriations. The contractor claims involve unique circumstances which are considered by the ASBCA in formulating decisions on the cases. The probable amount of loss from contractor claims was not furnished, and a loss for contractor claims is not included in the financial statements.

The Air Force is responsible for environmental cleanup. This responsibility is programmed into the Air Force six-year defense plan. The total estimated cost to the Air Force to complete environmental cleanup at 4,297 sites is \$4.95 billion. It is included in line 5.(5) as Other Non-Federal (Governmental) Liabilities Not Covered by Budgetary Resources and in line 7.e., Future Funding Requirements, on the Statement of Financial Position. The Air Force disbursed approximately \$393 million for environmental cleanup in FY 97 and \$81.2 million in FY 96.

In addition, the estimated costs to complete environmental cleanup for closed Air Force facilities under the jurisdiction of the Base Realignment and Closure (BRAC) committee are estimated to be a total of \$1.33 billion for 1,521 sites. As these costs are the result of past Air Force operations, the liability for such costs are also included in line 5.(5) as Other Non-Federal (Governmental) Liabilities Not Covered by Budgetary Resources and in line 7.e., Future Funding Requirements, on the Statement of Financial Position. However, the cost of BRAC environmental cleanup is funded by DoD appropriations.

Air Force Civil Engineering - Environmental Restoration (AFLEVR) has identified 1,502 sites located on active Air Force installations on which environmental concerns have been raised, but actual testing has not yet been conducted. These sites are known as areas of concern. While historical data has not been maintained, AFLEVR estimates approximately 20% of these areas of concern will develop into actual sites. The costs associated with restoring actual sites cannot be reasonably estimated.

## Footnotes

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### **Note 31. Other Disclosures:**

**Advances and Prepayments, Intragovernmental, Line 1.a.(5):** Federal advances identified from budgetary data may not be properly coded or are not identifiable in budgetary data. No eliminating entry was recorded for intra-Air Force unearned revenues totaling \$44 million because this amount exceeds federal advances as reported.

**Progress Payments:** Progress payment accounting data are unreliable due to systems and reporting deficiencies. Air Force and DFASmanagements are having difficulty identifying progress payments and their related recoupment balances. Unmatched or mismatched recoupment amounts and progress payment amounts withheld have not been researched to determine the impact on the outstanding progress payment balance and other accounting records. Also, Air Force cannot differentiate between fixed price and other types of contracts.

**Inventory and War Reserves:** The reporting of items held for future use in case of conflict or other emergent need is not clearly addressed in the Statements of Federal Financial Standards (SFFAS). For example, munitions could be reported as operating materials and supplies, as general property, plant, and equipment (PP&E), or as National Defense PP&E. Since these items are not held for sale, they will not be reported as inventory. Until the SFFAS is clarified, items held for future use, in case of conflict or other emergent need, will be reported as War Reserves.

In FY 96, War Reserve Material could not be separately identified from inventory categories. In FY 97, these amounts were separated and line 1.1., War Reserves, was added to the Statement of Financial Position.

As of September 30, 1997, the values reported in Materiel on Hand - Ammunition were obtained from two Air Force systems, the Combat Ammunition System (CAS-A), and the Financial Inventory Accounting and Billing System (FIABS). The values from these two systems were reconciled to the total inventory value of \$20.7 billion. The total dollar amounts for FY 97 in Air Force general ledger subsidiary accounts (GLSAs) 14643 (ammunition, Air Force stored) and 14644 (ammunition stored with other government agencies) were \$14.9 billion and \$5.8 billion, respectively. During FY 97, the Air Force reportedly had unserviceable ammunition on hand valued at \$2.0 billion representing approximately 10 percent of the total. Of the \$2.0 billion unserviceable munitions, \$1.3 billion is stored with other government agencies.

The two systems (CAS-A and FIABS) still do not contain the total ammunitions administered by the Air Force. Locally purchased ammunition items are still not being reported. Actions to obtain these data are being addressed with the Air Force. The exact dollar value for this ammunition is still undetermined.

The increase (approximately \$4.0 billion) in ammunition values for FY 97 was due in part to obtaining cost data from FIABS on Air Intercept and Maverick missiles and Cartridge and Propellant Actuated Devices totaling \$2.2 billion. The remainder of the increase was caused by purchases, corrections to systems, and pricing problems.

**Equipment In Use:** Equipment in use valuation data are becoming more and more unreliable and questionable due to systems, reporting deficiencies, and the lack of adequate supply system edits. Air Force and DFAS managements are having difficulty identifying a reliable and comprehensive validation process for extreme value fluctuations in equipment in use values.

**Interest Receivables, Line 2.b.(2)** of the Statement of Financial Position represents the amount of interest due from the public on delinquent debt. The 76% decrease in interest receivables is primarily attributable to a Pan American Airlines bankruptcy settlement recorded during FY 97.

**Accounts Payable:** Accounts Payable with Non-Federal Entities, Line 4.b.(1), reflects an increase of 121% for FY 97. Refer to the following Accrued Expenditure Report paragraph which identifies an increase in accounts payable reflected on that report. Also, the prevalidation by accountable stations of contract payments over \$3 million paid by DFAS-CO has resulted in a duplication in reporting some accounts payable by the accountable stations and DFAS-CO. Accounts payable were overstated by at least \$604 million because of this duplicate reporting.

**Accrued Expenditure Report:** As required by DoD 7000.14-FMR, Volume 3, Chapter 16, Accounts Payable, Public, includes \$ 2.6 billion of Accrued Expenditures Unpaid from the HAF-ACF(M)7152 report received from the Columbus Center relating to central procurement. The report reflects outstanding accounts payable, invoices on hand but unmatched to accounts payable, recoupments of progress payments, and withholding on cost/fee vouchers because of nonreceipt of patent clearances. Personnel at the DFAS Columbus Center have implemented systems changes correcting the Accrued Expenditures Unpaid Report for FY 97. The result has been a 243% increase in the report for FY 97. Despite systems changes made during FY 97 to correct the Accrued Expenditures Report, problems remain with the reliability of the data.

**Interest Payable:** DFAS-CO has accumulated prompt payment interest of approximately \$2 million during FY 97 for Air Force contracts. The interest payments were not made because Air Force did not provide a fund cite in a timely manner.

**Undistributed Collections and Disbursements:** Accounts receivable and payable are adjusted for undistributed collections and disbursements. These transactions represent the Air Force's in-float (undistributed) collections and disbursements for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. The CFO Reporting System prorates undistributed amounts by appropriation based on the percentage of distributed government and public receivables and payables. Previous years' proration journal vouchers were reversed during FY 97 and cumulative factors were computed.

**Separation Pay and Separation Allowance (in thousands):**

Reported liability includes the accrued amounts for:	<u>1997</u>	<u>1996</u>
Accrued separation allowance for foreign nationals	\$ 1,012	\$ 15,699
Accrued military separation allowance	2,557	1,576
Temporary Early Retirement Authority (TERA)	179,167	
Total	<u>\$182,736</u>	<u>\$ 17,275</u>

## Footnotes

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Prior to FY 97, general ledger account 216 from the Air Force General Funds General Ledger (AFGFGL) was used to report separation allowances for foreign nationals in the financial statements. Research reveals that this GLA did not reflect only proper 4th quarter accrued amounts and was therefore overstated. Effective with FY 97 reporting, separation allowances for foreign nationals will reflect those accruals reported in the status of funds reports. These should represent 4th quarter accruals not yet transferred to the trust fund.

Separation pay and allowance includes Temporary Early Retirement Authority (TERA) liability in FY 97. TERA could not be segregated from accounts payable in FY 96.

**Canceled Balances:** All unliquidated balances associated with closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures. The amount of canceled undelivered orders is included in Note 1.V. Canceled receivables are included in the Air Force Statement of Financial Position.

**Canceled Account Adjustments:** The Air Force has reopened several canceled accounts to make adjustments to disbursements and collections made prior to account closure. Closed account adjustments can be between two closed accounts or between a closed account and an expired or current appropriation, revolving fund, trust fund, suspense, or receipt account. Treasury reestablishes fund balances; however, these amounts are not available for Air Force use. Funds with Treasury do not include these reopened account balances.

**Net Change in Invested Capital:** The net change in invested capital is computed as the difference between the prior year balance and the current year balance of invested capital. The net change computed from amounts reported on the Statement of Financial Position was an increase of \$7.7 billion.

Invested capital is computed as the sum of progress payments to contractors (reported as advances and prepayments), excess and surplus property (reported as inventory), operating materials and supplies and war reserves (reported as war reserves), and property, plant, and equipment. The Air Force general ledger system and property systems from which these values are taken do not allow for detailed tracking and presentation of the various causes of changes in invested capital. Moreover, the present system does not allow for reconciling total expenditures from the capital/procurement appropriations discussed below and the reported capitalized amounts.

The current budgetary and accounting process under which the Air Force operates does not distinguish between capital and operating expenses within appropriations. Therefore, appropriations were classified as either operating appropriations or capital appropriations for financial statement reporting purposes. Expenditures from capital appropriations were \$21.6 billion for the year. Accrued expenditures, by capital appropriation, are as follows (the amounts for appropriations classified as operating appropriations are included in Note 23):

	(Thousands)
Aircraft Procurement (3010)	\$8,824,511
Procurement of Ammunition (3011)	235,339
Other Procurement (3080)	8,248,481
Missile Procurement (3020)	2,897,357
Military Construction (3300)	755,941
Military Construction, ANG (3830)	206,757
Family Housing, Construction (0704)	348,438
Military Construction, AF Reserve (3730)	51,615
Total Capital Accrued Expenditures	<u><u>\$21,568,439</u></u>

This total expenditure amount does not automatically increase invested capital for a like amount. Only expenditures from an appropriation meeting the current capitalization guidelines and dollar threshold of \$100,000 will increase the value of property, plant, and equipment. Only expenditures for items of a nature included in operating material and supplies and not consumed in the current year will increase the value of inventories not held for sale.

**Interest Penalties, Non-Federal**, as reflected on the Statement of Operations, Line 3, represents the amount of interest and late charges that were collected during the fiscal year on amounts owed by public entities. These collections, as reflected on Line 7 of the Statement of Operations, are transferred to Treasury.

**Interest Expenses**: Prior period adjustments include \$2.6 million in interest penalties paid by DFAS-CO on Air Force contracts in FY 96. The amount reflected on line 13.c., Other Expenses, on the Statement of Operations, is net of this adjustment. This transaction was not expensed by the accountable activity until FY 97; therefore, a prior period adjustment was required.

**FY 97 Payments for Special Separation Benefit (SSB), Voluntary Separation Incentive (VSI), and Voluntary Separation Incentive Payments (VSIP)**: In FY 97 there were no payments to military personnel for SSB. The FY 97 payments to military personnel for VSI were \$44.7 million. The FY 97 payments to civilians for VSIP were approximately \$20 million.

**Cadet Fund**: As of September 30, 1997, the Cadet Fund had no equity. The Cadet Emergency Leave Fund receives its money from a one-time collection from each freshman cadet. The Cadet Fund receives a check from DFAS-DE which represents funds from the cadets to pay vendors who perform services for the cadets (e.g., dry cleaning, tailors, and barbers). All dollars received by the Cadet Fund are disbursed for support of cadets.

## Footnotes

### Unmatched Disbursements, Negative Unliquidated Obligations, and Totals (in thousands):

Treasury Index 57 Air Force Appropriations	September 1996	September 1997	Change	Percent Change
*Unmatched Disbursements	\$ 731,575	\$ 409,653	\$ (321,922)	-44.00%
**Negative Unliquidated Obligations	428,612	434,237	\$ 5,625	1.31%
Totals	<u>\$1,160,187</u>	<u>\$ 843,890</u>	<u>\$ (316,297)</u>	<u>-27.26%</u>

\* Net total of Contract Payment Notice rejects, intra-service, inter-service, and interfund suspense (>0 days). CPN rejects total \$293.2 million. Intra-service rejects total \$38.7 million. Inter-service rejects total \$60.3 million and interfund suspense totals \$17.4 million. Unmatched disbursement figures were not broken down between Air Force and working capital funds for the FY 96 totals. FY 97 figures do not include working capital funds.

\*\*Unobligated NULOs, including those awaiting correction from paying station. Obligated NULOs are not reflected.

DFAS and its customers are making a concerted effort to reduce problem disbursements, including pre-validation of obligations before disbursements (Public Law 103-335).

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**Note 32. Statement of Budgetary Resources:**

The Statement of Budgetary Resources provides information about the flow of budgetary resources on the budgetary basis of accounting that the other financial statements do not. Information on the budgetary basis is used to control the obligation of budgetary resources and the outlays to liquidate those obligations. The Statement of Budgetary Resources is presented to show this information and provide a reference point for accrual based statements. It tracks the execution of the budget from the budgetary resources made available, obligation of those budgetary resources and, finally, outlays (usually in cash) to satisfy obligations. Budgetary integrity will be enhanced because of this Statement. The Air Force, with DoD approval, implemented this statement early. This statement is being reviewed by the Air Force Audit Agency, in conjunction with the GAO, in an attempt to issue an opinion.

This statement illustrates, in condensed form, the information that OMB Circular A-34 requires to be reported on the Report on Budget Execution (SF 133). The elements of the statement are:

**Budgetary Resources:** Amount of resources made available for obligation that will result in immediate or future outlays involving Federal Government funds.

**Status of Budgetary Resources:** Disposition of the budgetary resources made available. It consists of the obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year expired budget authority that are not available but have been carried forward to be used only to record, adjust, or liquidate obligations chargeable to the appropriation(s). The total amount displayed for status should be equal to the total amount displayed as available. With implementation of the FY 98 reporting requirements, the obligations incurred, less spending authority from offsetting collections data reported in this Statement, will be reconciled on the Statement of Financing to the net cost of operations as reported on the Statement of Net Costs, in effect, reconciling budgetary data to proprietary data.

**Outlays:** Payments made to liquidate obligations net of offsetting collections. Obligations are usually liquidated by means of cash payments currency, checks, or electronic funds transfers.

The Department of the Air Force has implemented this Statement one year early. It is an aggregation of all Air Force activity for the year. This includes all current, unexpired, and expired accounts. Supplemental reports supporting the aggregation are provided to separately reflect current, unexpired, and expired appropriations. Additionally, reports are provided at the appropriation level for the 16 general fund appropriations and 4 miscellaneous appropriations. If supplemental reports had been prepared at the appropriation year level, 133 reports would have been presented. The Department of the Air Force has chosen not to present these disaggregated statements. These statements would have contained the same information that is compiled on a monthly and year-end basis in the SF 133, Report on Budget Execution, that is forwarded to the Office of Management and Budget for management review. These budget execution reports at the account level are available to the public, including readers of these statements, should they desire to monitor budget execution within the Department of the Air Force.

## Footnotes

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Since there was no requirement for the Statement of Budgetary Resources to be included in the FY 96 financial statements, audited FY 96 data are not available. Consequently, comparative information is not presented in this statement.

**Undelivered Orders:** The aggregate amount of budgetary resources obligated for undelivered orders at the end of the period is \$33.1 billion.

**Adjustments to Budgetary Resources:** Adjustments to budgetary resources, as reflected on line 4 of the Statement of Budgetary Resources, represent the following:

Recoveries of prior year obligations		\$ 1,570,164
Amount temporarily not available		
pursuant to Public Law		-
Amount permanently not available:		
Cancellations of expired accounts	\$ (1,110,472)	
Enacted rescissions of prior year balances	(248,100)	
Other authority withdrawn	-	
Pursuant to Public Law	(354,649)	
Amount permanently canceled		(1,713,221)
Total Adjustments:		\$ (143,057)

**Closed Year Accounts:** In order to process needed adjustments, permission was received from Treasury to reopen closed year accounts. The reopening of closed accounts does not restore any budget authority to these accounts. Closed year accounts for most appropriations have been reopened for adjustments to disbursements or collections made prior to account closure. Remaining receivables and payables in closed year accounts are included in the Statement of Financial Position.

**Eliminating Entries:** In accordance with guidance, the Statement of Budgetary Resources does not reflect eliminating entries.

**Reporting Format Exception:** The sum of spending authority from offsetting collections and adjustments as reported as budgetary resources should equal the amount of spending authority from offsetting collections and adjustments subtracted from obligations incurred in the outlays section of the report. However, the reporting format does not call for the same data from the SF 133.

***DEPARTMENT OF THE  
AIR FORCE***

***GENERAL FUNDS***

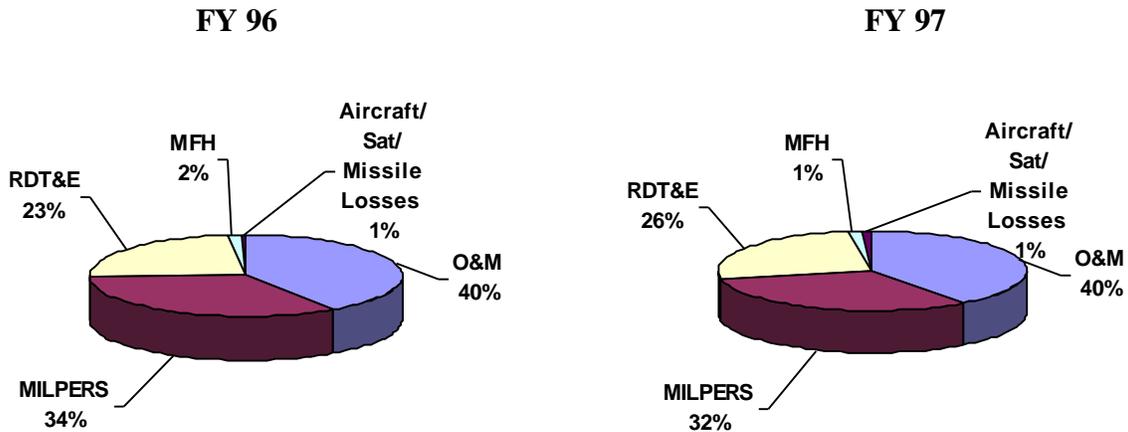
***SUPPLEMENTAL  
FINANCIAL  
AND MANAGEMENT  
INFORMATION***



**STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)**

**Revenues and Financial Sources:** Appropriated Capital Used \$59,703,432,330

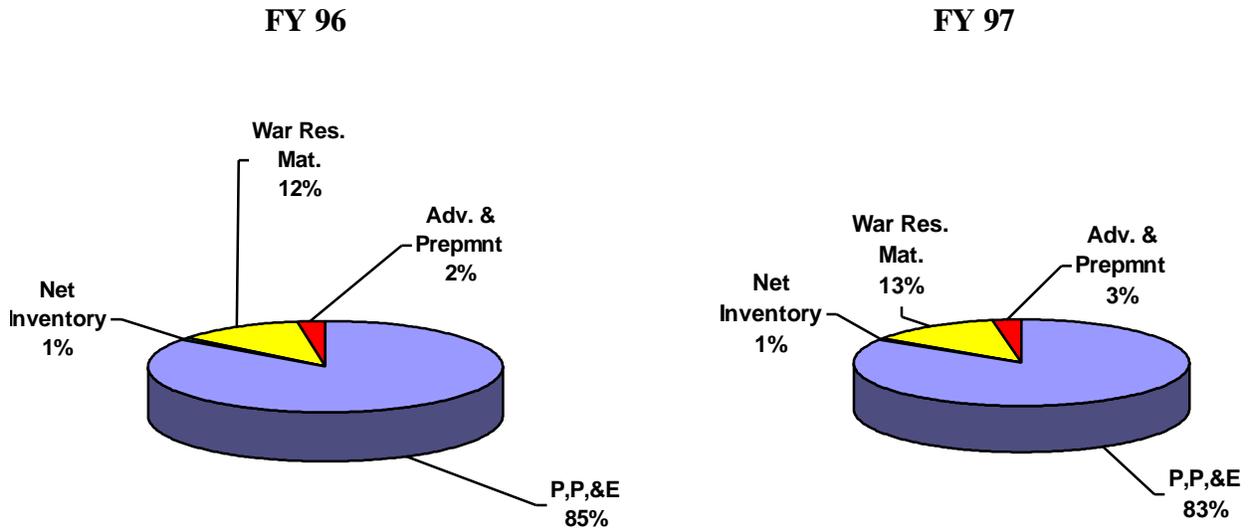
**Appropriated Capital Used**



<b>Appropriated Capital Used</b>				
<b>Line Item 1 – Statement of Operations</b>				
<b>(\$ in Billions)</b>				
	<b>FY 96</b>		<b>FY 97</b>	
	<b>\$ Amt</b>	<b>%</b>	<b>\$ Amt</b>	<b>%</b>
1. Operation & Maintenance (O&M)	22.8	40	23.9	40
2. Military Personnel Costs (MILPERS)	19.2	34	19.1	32
3. Research, Development, Test & Evaluation (RDT&E)	13.2	23	15.2	26
4. Military Family Housing	0.8	2	0.8	1
5. Aircraft/Missile/Satellite Losses	<u>0.3</u>	<u>1</u>	<u>0.7</u>	<u>1</u>
<b>Total</b>	<b><u>56.3</u></b>	<b><u>100</u></b>	<b><u>59.7</u></b>	<b><u>100</u></b>

Appropriated Capital Used. The amount of appropriations used to finance expenses. This includes appropriations for (a) unfunded expenses from prior periods that are funded with current period appropriations, (b) depreciation of capitalized (fixed) assets and consumption of inventory related to prior year purchases of fixed assets or inventory, if recorded, (c) accrued and actual losses on inventory write-downs, and (d) bad debt expenses related to long-term loans receivable and related interest on pre-1992 loans, if recorded.

Invested Capital



Invested Capital Line 7b – Statement of Operations (\$ in Billions)				
	FY 96		FY 97	
	\$ Amt	%	\$ Amt	%
1. Property, Plant, & Equipment	246.1	85	249.1	83
2. Net Inventory	2.2	1	1.6	1
3. War Reserve Materials	34.3	12	38.7	13
4. Advances & Prepayments	<u>7.0</u>	<u>2</u>	<u>7.9</u>	<u>3</u>
<b>Total</b>	<b><u>289.6</u></b>	<b><u>100</u></b>	<b><u>297.3</u></b>	<b><u>100</u></b>

Invested Capital for Air Force general funds is the net government investment. This amount includes the acquisition cost of capitalized fixed assets financed by appropriations, less the reduction in investment due to sales or exchanges, donations, other disposals, or transfers to another entity.

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(Personnel: Current, Unexpired, Expired)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

	<u>3500</u>	<u>3700</u>	<u>3850</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCES:</b>				
Budget Authority	\$ 17,065,790	\$ 788,620	\$ 1,349,910	\$ 19,204,320
Unobligated Balances	11,206	117,317	36,373	164,896
Spending Authority from Offsetting Collections	231,929	1,156	14,500	247,585
Adjustments	(4,618)	43,032	(5,687)	32,727
<b>Total Budgetary Resources</b>	<b><u>\$ 17,304,307</u></b>	<b><u>\$ 950,125</u></b>	<b><u>\$ 1,395,096</u></b>	<b><u>\$ 19,649,528</u></b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 17,289,496	\$ 806,147	\$ 1,361,667	\$ 19,457,310
Unobligated Balances Available	9,605	10,516	14,377	34,498
Unobligated Balances Not Available	5,206	133,462	19,052	157,720
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 17,304,307</u></b>	<b><u>\$ 950,125</u></b>	<b><u>\$ 1,395,096</u></b>	<b><u>\$ 19,649,528</u></b>

**OUTLAYS:**

Obligations Incurred	\$ 17,289,496	\$ 806,147	\$ 1,361,667	\$ 19,457,310
Less: Spending Authority from Offsetting Collections and Adjustments	(249,813)	(46,161)	(21,249)	(317,223)
Obligated Balance, Net - Beginning of Period	1,646,337	65,584	68,614	1,780,535
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(1,628,041)	(81,794)	(60,231)	(1,770,066)
<b>Total Outlays</b>	<b><u>\$ 17,057,979</u></b>	<b><u>\$ 743,776</u></b>	<b><u>\$ 1,348,801</u></b>	<b><u>\$ 19,150,556</u></b>

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(O&M: Current, Unexpired, Expired)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

	<u>3400</u>	<u>3740</u>	<u>3840</u>	<u>0704</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCES:</b>					
Budget Authority	\$ 18,507,867	\$ 1,506,228	\$ 2,745,109	\$ 816,509	\$ 23,575,713
Unobligated Balances	714,717	65,652	61,301	77,211	918,881
Spending Authority from Offsetting Collections	2,473,360	56,576	140,289	9,307	2,679,532
Adjustments	113,048	22,968	15,117	(2,925)	148,208
<b>Total Budgetary Resources</b>	<b>\$ 21,808,992</b>	<b>\$ 1,651,424</b>	<b>\$ 2,961,816</b>	<b>\$ 900,102</b>	<b>\$ 27,322,334</b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 21,255,003	\$ 1,552,103	\$ 2,895,337	\$ 810,656	\$ 26,513,099
Unobligated Balances Available	34,399	11,216	4,890	22,707	73,212
Unobligated Balances Not Available	519,590	88,105	61,589	66,739	736,023
<b>Total Status of Budgetary Resources</b>	<b>\$ 21,808,992</b>	<b>\$ 1,651,424</b>	<b>\$ 2,961,816</b>	<b>\$ 900,102</b>	<b>\$ 27,322,334</b>

**OUTLAYS:**

Obligations Incurred	\$ 21,255,003	\$ 1,552,103	\$ 2,895,337	\$ 810,656	\$ 26,513,099
Less: Spending Authority from Offsetting Collections and Adjustments	(2,979,545)	(97,431)	(185,637)	(33,774)	(3,296,387)
Obligated Balance, Net - Beginning of Period	7,134,624	319,371	618,433	373,996	8,446,424
Obligated Balance Transferred, Net	0	0	0	0	0
Less: Obligated Balance, Net - End of Period	(6,108,420)	(267,471)	(530,711)	(344,556)	(7,251,158)
<b>Total Outlays</b>	<b>\$ 19,301,662</b>	<b>\$ 1,506,572</b>	<b>\$ 2,797,422</b>	<b>\$ 806,322</b>	<b>\$ 24,411,978</b>

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(Procurement: Current, Unexpired, Expired)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

	<u>3010</u>	<u>3011</u>	<u>3020</u>	<u>3080</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCES:</b>					
Budget Authority	\$ 6,377,670	\$ 311,663	\$ 1,843,945	\$ 6,189,433	\$ 14,722,711
Unobligated Balances	4,473,538	58,445	862,526	1,911,513	7,306,022
Spending Authority from Offsetting Collections	62,326	8,999	102,867	99,096	273,288
Adjustments	(149,945)	(7,677)	22,733	(221,842)	(356,731)
<b>Total Budgetary Resources</b>	<b>\$ 10,763,589</b>	<b>\$ 371,430</b>	<b>\$ 2,832,071</b>	<b>\$ 7,978,200</b>	<b>\$ 21,945,290</b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 8,096,670	\$ 282,080	\$ 1,996,449	\$ 7,383,452	\$ 17,758,651
Unobligated Balances Available	1,829,756	80,545	518,352	752,272	3,180,925
Unobligated Balances Not Available	837,163	8,805	317,270	(157,524)	1,005,714
<b>Total Status of Budgetary Resources</b>	<b>\$ 10,763,589</b>	<b>\$ 371,430</b>	<b>\$ 2,832,071</b>	<b>\$ 7,978,200</b>	<b>\$ 21,945,290</b>

**OUTLAYS:**

Obligations Incurred	\$ 8,096,670	\$ 282,080	\$ 1,996,449	\$ 7,383,452	\$ 17,758,651
Less: Spending Authority from Offsetting Collections and Adjustments	(376,056)	(9,297)	(341,734)	(216,400)	(943,487)
Obligated Balance, Net - Beginning of Period	13,058,723	309,846	4,744,950	3,820,802	21,934,321
Obligated Balance Transferred, Net	0	0	0	0	0
Less: Obligated Balance, Net - End of Period	(12,851,081)	(390,944)	(3,642,936)	(3,730,145)	(20,615,106)
<b>Total Outlays</b>	<b>\$ 7,928,256</b>	<b>\$ 191,685</b>	<b>\$ 2,756,729</b>	<b>\$ 7,257,709</b>	<b>\$ 18,134,379</b>

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(RDT&E: Current, Unexpired, Expired)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

**3600**

**BUDGETARY RESOURCES:**

Budget Authority	\$ 14,087,250
Unobligated Balances	1,662,171
Spending Authority from Offsetting Collections	1,602,853
Adjustments	40,240
<b>Total Budgetary Resources</b>	<b><u>\$ 17,392,514</u></b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 15,827,826
Unobligated Balances Available	1,605,811
Unobligated Balances Not Available	<b>(41,123)</b>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 17,392,514</u></b>

**OUTLAYS:**

Obligations Incurred	\$ 15,827,826
Less: Spending Authority from Offsetting Collections and Adjustments	<b>(1,811,923)</b>
Obligated Balance, Net - Beginning of Period	6,490,097
Obligated Balance Transferred, Net	0
Less: Obligated Balance, Net - End of Period	<b>(6,458,484)</b>
<b>Total Outlays</b>	<b><u>\$ 14,047,516</u></b>

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(Construction: Current, Unexpired, Expired)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

	<u>3300</u>	<u>3830</u>	<u>3730</u>	<u>0704</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCES:</b>					
Budget Authority	\$ 751,064	\$ 189,855	\$ 52,805	\$ 318,037	\$ 1,311,761
Unobligated Balances	342,162	180,470	16,278	114,811	653,721
Spending Authority from Offsetting Collections	0	0	0	0	0
Adjustments	(3,764)	(4,193)	141	315	(7,501)
<b>Total Budgetary Resources</b>	<b>\$ 1,089,462</b>	<b>\$ 366,132</b>	<b>\$ 69,224</b>	<b>\$ 433,163</b>	<b>\$ 1,957,981</b>

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 862,970	\$ 259,648	\$ 45,499	\$ 312,761	\$ 1,480,878
Unobligated Balances Available	205,637	87,469	21,108	117,427	431,641
Unobligated Balances Not Available	20,855	19,015	2,617	2,975	45,462
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,089,462</b>	<b>\$ 366,132</b>	<b>\$ 69,224</b>	<b>\$ 433,163</b>	<b>\$ 1,957,981</b>

**OUTLAYS:**

Obligations Incurred	\$ 862,970	\$ 259,648	\$ 45,499	\$ 312,761	\$ 1,480,878
Less: Spending Authority from Offsetting Collections and Adjustments	(1,777)	(1,155)	(202)	(1,270)	(4,404)
Obligated Balance, Net - Beginning of Period	806,979	209,191	57,244	329,400	1,402,814
Obligated Balance Transferred, Net	0	0	0	0	0
Less: Obligated Balance, Net - End of Period	(895,214)	(258,887)	(49,573)	(290,953)	(1,494,627)
<b>Total Outlays</b>	<b>\$ 772,958</b>	<b>\$ 208,797</b>	<b>\$ 52,968</b>	<b>\$ 349,938</b>	<b>\$ 1,384,661</b>

**Department of the Air Force**  
**Statement of Budgetary Resources**  
**(Miscellaneous)**  
**For the Period Ended September 30, 1997**  
*(Thousands)*

	<u>8928</u>		<u>8418</u>		<u>5095</u>		<u>0003</u>		<u>TOTAL</u>
<b>BUDGETARY RESOURCES:</b>									
Budget Authority	\$ 678	\$	-	\$	597	\$	(454,539)	\$	(453,264)
Unobligated Balances	1,710		5		526		0		2,241
Spending Authority from Offsetting Collections	0		14,018		0		0		14,018
Adjustments	0		0		0		0		0
<b>Total Budgetary Resources</b>	<b>\$ 2,388</b>	<b>\$</b>	<b>14,023</b>	<b>\$</b>	<b>1,123</b>	<b>\$</b>	<b>(454,539)</b>	<b>\$</b>	<b>(437,005)</b>

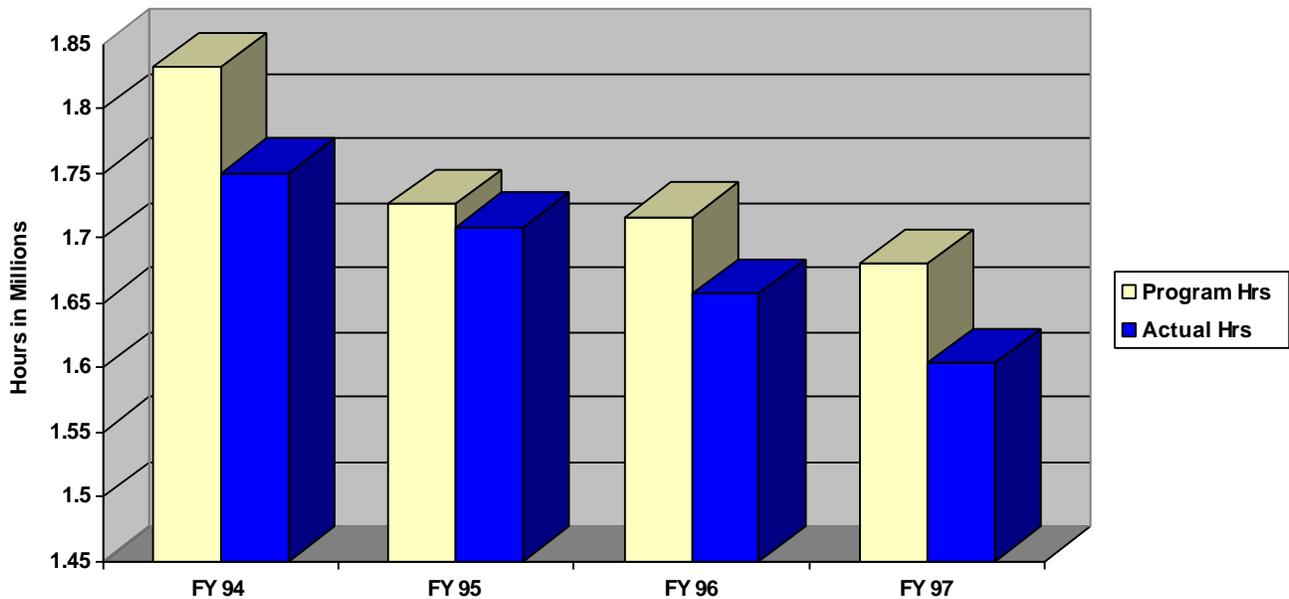
**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred	\$ 368	\$	14,023	\$	594	\$	(454,539)	\$	(439,554)
Unobligated Balances Available	2,020		0		529		0		2,549
Unobligated Balances Not Available	0		0		0		0		0
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,388</b>	<b>\$</b>	<b>14,023</b>	<b>\$</b>	<b>1,123</b>	<b>\$</b>	<b>(454,539)</b>	<b>\$</b>	<b>(437,005)</b>

**OUTLAYS:**

Obligations Incurred	\$ 368	\$	14,023	\$	594	\$	(454,539)	\$	(439,554)
Less: Spending Authority from Offsetting Collections and Adjustments	0		(14,018)		0		0		(14,018)
Obligated Balance, Net - Beginning of Period	84		662		194		0		940
Obligated Balance Transferred, Net	0		0		0		0		0
Less: Obligated Balance, Net - End of Period	(66)		(189)		(115)		0		(370)
<b>Total Outlays</b>	<b>\$ 386</b>	<b>\$</b>	<b>478</b>	<b>\$</b>	<b>673</b>	<b>\$</b>	<b>(454,539)</b>	<b>\$</b>	<b>(453,002)</b>

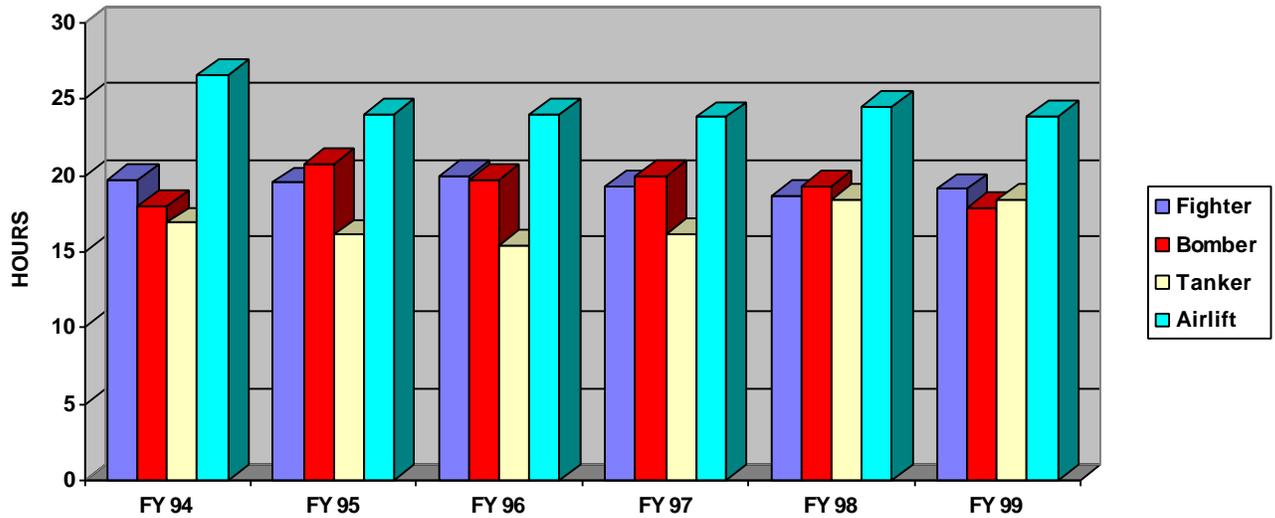
### FLYING HOURS PROGRAM



Hours in Millions	FY94	FY95	FY96	FY97
Program Hrs	1.832	1.726	1.716	1.680
Actual Hrs	1.750	1.709	1.657	1.605
% Complete	95.5	99.0	96.6	95.4

Percent completion varies due to numerous factors such as fact-of-life program changes during the year, support to regional contingencies, weapons systems retirements, conversion of hours between weapons systems, and aircraft groundings.

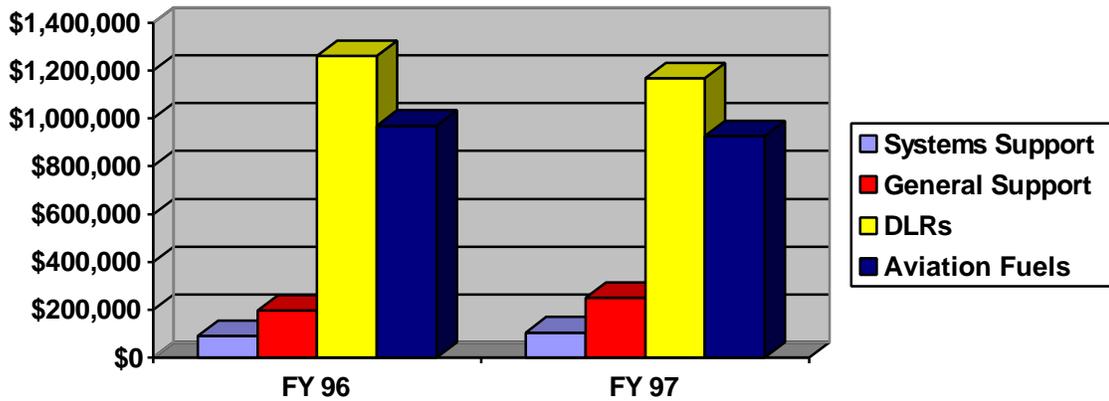
### HOURS PER CREW PER MONTH (HCM) (Programmed)



Type Aircraft	FY94	FY95	FY96	FY97	FY98	FY99
<b>Fighter</b>	19.7	19.9	20.0	19.3	18.7	19.1
<b>Bomber</b>	18.0	20.7	19.7	19.9	19.3	17.9
<b>Tanker</b>	15.8	16.0	15.4	16.2	18.4	17.0
<b>Airlift</b>	25.5	24.0	24.0	23.8	24.5	23.9

Hours Per Crew Per Month (HCM) is a programmatic indicator to show the impact Planning, Programming, and Budgeting System (PPBS) actions have on combat crews. HCM is an aggregate of different weapon systems in different commands. HCM values vary widely by weapon system and MAJCOM due to differences in mission profiles, crew composition, and training requirements for dissimilar aircraft. HCM includes combat and major combat support weapon systems only. Due to significant differences between categories, HCM values are not aggregated in an overall Air Force composite HCM.

**OPERATION AND MAINTENANCE IN SUPPORT OF  
FLYING HOURS PROGRAM**



Expense Category	FY96	FY97	Delta
Systems Support	92,136	105,431	13,295
General Support	196,274	249,669	53,395
Depot Level Reparables (DLRs)	1,261,577	1,167,784	-93,793
Aviation Fuels	<u>970,032</u>	<u>926,888</u>	<u>-43,144</u>
<b>TOTAL</b>	<b>2,520,019</b>	<b>2,449,772</b>	<b>-70,244</b>

- System Support increase due to a 5.23% price increase.
- General Support increase due to a shift of items from System Support to General Support.
- Depot Level Reparables (DLRs) decrease due to 5.48% price decrease.
- Aviation Fuels decreased because Total Flying Hours executed decreased by approximately 3% from FY96.

### ANALYSIS OF HEALTH CARE STANDARD

The Air Force Medical Service (AFMS) has five strategic initiatives – assuring medical readiness, deploying TRICARE, rightsizing, building healthy communities, and customer satisfaction. This strategy is illustrated below by the AFMS “Parthenon” of four pillars supporting the capstone – customer satisfaction.



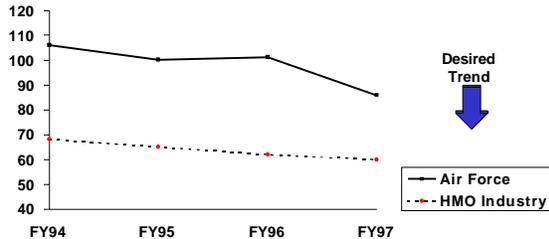
Just as there is an ongoing revolution in military affairs, there is a revolution in medical affairs being pressured by forces “tectonic” in nature – a shifting world economy, rapid advances in technology, increased social expectations, and changes in national medical doctrine.

The measure of an effective health care system is its ability to prevent disease, disability, and mortality associated with lifestyle choices. Our civilian colleagues have proven prevention is the cornerstone of cost-effective health care. Prevention of disease is a force multiplier. Successful health promotion strategies, whether in the workplace, home, or the health care environment, strive to redirect traditional disease-based treatments towards a proactive, prevention-based lifestyle for all. In short, the Air Force goal is to ensure total support to the operational forces, deliver compassionate care with fiscal resolve, and carry out a health care strategy of "keep 'em flying, not return 'em to flying".

Appropriate strategies are in place to make the most efficient use of Air Force resources by using quality, customer-sensitive, and market driven factors as guides. Demand management and utilization management (UM) strategies are tools that can optimize resource utilization. A systematic evaluation of the necessity, appropriateness, and efficiency of the use of health care services, procedures, and facilities is essential. UM can reduce the length of, or prevent inpatient

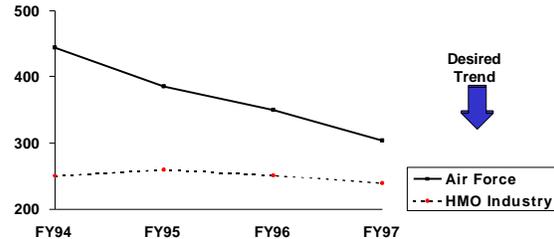
stays. UM can reduce costs and increase capacity. Resources used in providing both inpatient and outpatient medical care can be optimized with timely use of this information. Air Force medical facilities have continued to dramatically decrease their inpatient utilization, with even further reductions projected in FY98.

**Utilization Management -  
Discharges per 1,000 Beneficiaries  
(under age 65)**



Sources: 1. Retrospective Case Mix Analysis System (RCMAS)  
2. Defense Medical Information System (DMIS)  
3. American Association of Health Plans Annual Industry Profile

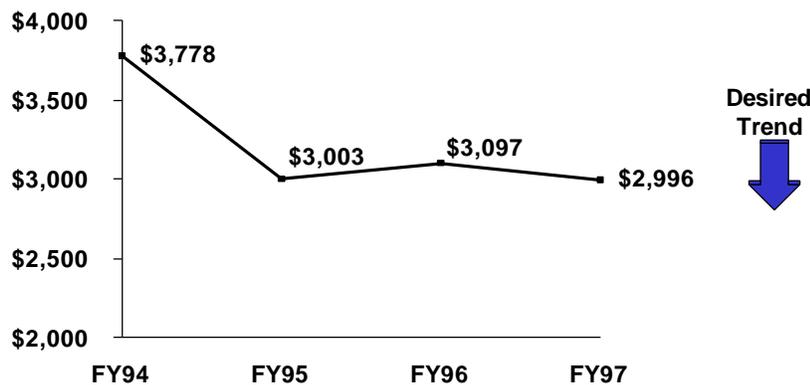
**Utilization Management -  
Bed Days per 1,000 Beneficiaries  
(under age 65)**



Sources: 1. Retrospective Case Mix Analysis System (RCMAS)  
2. Defense Medical Information System (DMIS)  
3. American Association of Health Plans Annual Industry Profile

The proper application of strategic resourcing tools and business case decision-making ensures the most efficient use of scarce medical resources. Air Force Medical Service resourcing intends to take advantage of key financing opportunities, goals, deployment and implementation plans, and performance measures, with the end goal of reducing the total cost of health care.

**O&M Cost per Medical Work Unit  
(MWU)**



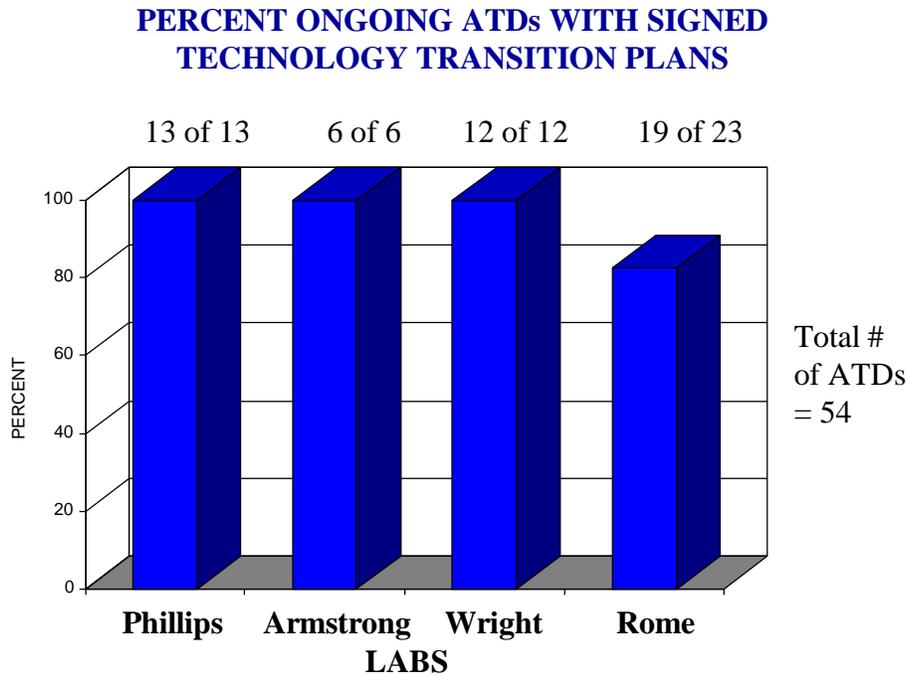
Sources: 1. Defense Medical Information System (DMIS)  
2. Defense Finance and Accounting Service (DFAS)

The current trend in Cost per MWU reflects increasing efficiencies introduced into health care delivery management. These efficiencies include: the transition to ambulatory procedure units and other outpatient health care settings, Prime Vendor arrangements requiring less investment in inventory, and arrangements leading to better health care delivery settings such as rightsizing and resource sharing programs. As these programs mature, a further reduction in cost will be realized.

## ADVANCED TECHNOLOGY DEMONSTRATIONS

The following information defines the current status of the Air Force Advanced Technology Demonstrations (ATDs). A critical step in successfully transitioning ATDs is to obtain a signed Technology Transition Plan (TTP) between the sponsoring laboratory and the user (i.e., Air Combat Command (ACC), Air Mobility Command (AMC), etc.) These TTPs define the laboratory's demonstration requirements and the user Command's commitment to employ the technology once it is successfully demonstrated. There are a total of 54 on-going ATDs, all of which have signed TTPs.

Since DoD ATDs are relatively new, the ATDs have not reached the technology transition point. As the ATDs are completed, the Air Force will review how best to qualitatively assess the success and payoffs of these technology transitions to user acquisition programs.



**AF FORCE STRUCTURE**

The following indicates the programmed force structure for FY 97, along with the end of year force structure:

	<u>Programmed FY97</u>	<u>Actual FY 97</u>
Fighter Wing Equivalents	*20	*20
Active Military Personnel	381,087	377,385
Active Civilian Personnel	177,138	179,184
Reserve Military Personnel	73,311	71,986
Guard Military Personnel	109,178	110,023
<i>(*13 Active)</i>		

**PERSONNEL READINESS AND SUSTAINABILITY**

<b>AIR FORCE GOALS AND PERFORMANCE MEASURES</b>	<b>FY97 GOAL</b>	<b>FY97 ACTUAL</b>	<b>COMMENTS</b>
Combined Planning and Exercises - Number of foreign countries DoD has conducted combined exercises with	57	56	Status of forces agreement was not in effect for the Philippines
Port calls, Visits, and Demonstrations - Number of times senior DoD counterparts visits are made (includes military-to-military contacts between senior level US military personnel and foreign counterparts (i.e., staff talks))	25	53	SECAF = 9 CSAF = 47 (Also the U.S. hosted the Global Air Chiefs Conference in 1997 with 89 countries participating; if added in, total is 142)
International Military, Education, and Training (IMET) - Number of foreign soldiers educated or trained by the US military	1000	2947	It is in line with a steady annual increase since 1993 and is forecast to continue to rise. The Air Force is actively reaching out to potential coalition partners and working to promote democracies worldwide through mil-to-mil contacts and education
Schools of Other Nations - Number of US military personnel educated or trained by foreign military	20	27	The Air Force continues to exceed its goals in this area

### REAL PROPERTY MAINTENANCE ACTIVITIES (RPMA) PROGRAM

The FY97 Air Force Plant Replacement Value (PRV) was \$215.8 billion. The Facility Investment Metric (FIM) FY97 requirements for the Total Air Force (Active, Reserve, and Guard) were \$350 million in critical, \$3,627 million in degraded, and \$3,348 million in minimal.

PRV is the amount of money required to replace the Air Force's active, guard, and reserve physical plant (facility for facility, mile of road for mile of road, etc.) in FY97 dollars. The figure is calculated using real property records, consisting of over 250,000 individual facility records. Information extracted from the records includes scope, unit of measure, facility category code, and description of each facility. The PRV model takes into account the unit cost for the type of facility, a facility size adjustment factor, area cost factors, a percentage for site preparation, design, and construction management. The PRV has been adjusted for all known base closures, realignments, and transfers through September 1997. Out-year projections are also calculated using approved inflation factors. PRV includes both vertical facilities, as well as those not measured by square feet (i.e., utility systems, airfield pavements, and roads) which account for approximately 35% of the total value. This figure above does not include the military family housing PRV.

The FIM Program provides the Air Force Corporate Structure with credible information to make resource decisions on the Air Force's most urgent facility requirements. It standardizes how we identify and categorize requirements in relation to MAJCOM-unique missions. The FIM program also provides analytical data needed to build a corporate Air Force facility investment strategy, measure adherence to this strategy, and determine the adequacy of long-term levels of investment. FIM requirements are categorized by the mission area they support (Primary Mission, Mission Support, Base Support, and Community Support) and impact to the primary mission of the host installation or tenant organization:

**Critical**: Significant loss of installation/tenant mission capability and frequent mission interruptions, *and* work-arounds are continuously needed. Risk Assessment Code (RAC) or Fire Safety Deficiency Code (FSDC) of I.

**Degraded**: Limited loss of installation/tenant mission capability *and* work-arounds to prevent mission disruption and degradation are often required. RAC/FSDC of II or III are included.

**Minimal**: Marginal or no adverse impact to installation/tenant mission capability *and* work-arounds are seldom required. Included in this rating category are requirements that would improve productivity and lead to reduced operating costs (i.e., some facility consolidation and energy conservation initiatives). Any requirement which does not meet the Critical or Degraded criteria.

## GENERAL FUNDS

### Financial Obligations Attribute

**FY 1997**  
*(\$ Thousands)*

	<u>1996</u>	<u>1997</u>
Total Current Assets	95,898,170	94,387,989
Total Current Liabilities	7,545,943	10,775,289
Current Ratio	12.71	8.76
Total Quick Assets	52,270,437	46,129,255
Total Current Liabilities	7,545,943	10,775,289
Acid Test Ratio	6.93	4.28

### Operating Results Attribute

**FY 1997**  
*(\$ Thousands)*

	<u>1996</u>	<u>1997</u>
Revenues:		
Appropriations Realized	56,262,207	59,702,759
Federal Sources	2,992,020	3,689,630
Public Sources	<u>217,077</u>	<u>1,058,008</u>
Total Revenues	59,471,304	64,450,397
Expenses and Losses	<u>59,545,812</u>	<u>64,999,522</u>
Net Operating Surplus <Deficit>	<74,508>	<549,125>

## GENERAL FUNDS

### Financial Condition Attribute

**FY 1997**  
*(\$ Thousands)*

	<u>1996</u>	<u>1997</u>
Total Assets	342,090,670	343,752,395
Total Liabilities	11,346,303	16,820,960
Ratio	30.15	20.44

### Operating Costs Attribute

**FY 1997**  
*(\$ Thousands)*

	<u>1996</u>	<u>1997</u>
Current Dollars:		
Total Costs and Expenses	59,545,812	64,999,522
Revenues and Reimbursements	<u>3,209,097</u>	<u>4,747,638</u>
Net Operating Costs	56,336,715	60,251,884
Annual Percentage Change	1.56%	6.95%
1996 Constant Dollars:		
Net Operating Costs	56,336,715	58,685,335
Annual Percentage Change		4.2%

## TRUST FUNDS

### Operating Results Attribute

FY 1997

(\$ Thousands)

	<u>1996</u>	<u>1997</u>
Revenues:		
Appropriations Realized	0	0
Federal Sources	47	55
Public Sources	<u>10,467</u>	<u>14,641</u>
Total Revenues	10,514	14,696
Expenses and Losses	<u>10,440</u>	<u>14,439</u>
Net Operating Surplus	<u>74</u>	<u>257</u>

### Financial Obligations Attribute

FY 1997

(\$ Thousands)

	<u>1996</u>	<u>1997</u>
Total Current Assets	3,343	3,234
Total Current Liabilities	2,922	1,190
Current Ratio	1.14	2.72
Total Quick Assets	3,343	3,234
Total Current Liabilities	2,922	1,190
Acid Test Ratio	1.14	2.72

## TRUST FUNDS

### Operating Costs Attribute

FY 1997  
(\$ Thousands)

	<u>1996</u>	<u>1997</u>
Current Dollars:		
Total Costs and Expenses	10,440	14,439
Revenues and Reimbursements	<u>10,514</u>	<u>14,696</u>
Net Operating Costs	<74>	<257>
Annual Percentage Change	82.99%	<245.9%>

### Financial Condition Attribute

FY 1997  
(\$ Thousands)

	<u>1996</u>	<u>1997</u>
Total Assets	4,710	3,234
Total Liabilities	2,922	1,190
Ratio	1.61	2.72

***DEPARTMENT OF THE  
AIR FORCE***

***GENERAL FUNDS***

***AUDIT OPINION***





















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

February 27, 1998

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 1997 Department of the Air Force General Fund Financial Statements (Project No. 7FD-2037)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Air Force Audit Agency (AFAA) the audits of the Air Force General Fund and other financial statements prepared by the Department of the Air Force. Summarized below are the AFAA disclaimer of opinion on the FYs 1997 and 1996 Air Force General Fund financial statements and the results of our review. We endorse the disclaimer of opinion expressed by the AFAA (see the Enclosure).

**Disclaimer of Opinion.** The AFAA disclaimer of opinion on the FYs 1997 and 1996 Air Force General Fund financial statements, dated February 27, 1998, stated that the AFAA was unable to express an opinion on the Air Force financial statements. We concur with the AFAA disclaimer of opinion for the reasons summarized below.

- o Accounts were overstated by approximately \$7.9 billion and understated by \$5.5 billion.

- o The acquisition cost of assets, valued at \$293 billion, could not be verified because the Air Force lacks a transaction-driven general ledger. To further complicate this problem, many financial systems were incapable of providing required information, document retention practices were deficient, and the consumption method of accounting was not used to determine the value of operating materials and supplies.

Inadequate accounting systems resulted in disclaimers of opinion for the FYs 1992 through 1996 Air Force financial statements. Inadequate accounting systems continued to exist in relation to the FY 1997 financial statements.

The AFAA also performed work on the FY 1997 statement of budgetary resources. However, the AFAA stated that insufficient work had been done to determine whether the statement was fairly presented.

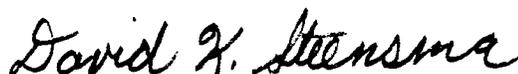
**Internal Controls.** Internal controls did not ensure that the FYs 1997 and 1996 Air Force General Fund financial statements contained no material misstatements. Details on these matters and on compliance with laws and regulations will be discussed in a separate report.

**Compliance With Laws and Regulations.** The AFAA also identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, the AFAA work disclosed that financial

management systems did not comply with Federal financial management system requirements; applicable Federal accounting standards; and the United States Government Standard General Ledger at the transaction level.

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

We conducted our review of the AFAA work on the FYs 1997 and 1996 Air Force General Fund financial statements from August 27, 1997, to February 27, 1998, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AFAA disclaimer of opinion or its related evaluation on internal controls and compliance with laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Enclosure



DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC 20330-1000

27 February 1998

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

1. We audited the consolidated financial statements of the Air Force for fiscal years ended 30 September 1997 and 30 September 1996. The Defense Finance and Accounting Service and Air Force management prepared the accompanying financial statements in accordance with the Government Management Reform Act of 1994. Our audits of the principal financial statements resulted in nine reports containing recommendations for improving Air Force financial management, internal controls, and compliance with laws and regulations. This report presents our opinion on the principal financial statements, our evaluation of the underlying internal control system, and our assessment of compliance with laws and regulations.

### **OPINION ON FINANCIAL STATEMENTS**

2. We were not able to obtain sufficient evidential matter, or to apply other auditing procedures, to satisfy ourselves as to the fairness of the Air Force consolidated financial statements. As a result, we are unable to express an opinion on the reliability of the Air Force Fiscal Year 1997 financial statements. Financial information supporting the Statement of Financial Position and the Statement of Operations and Changes in Net Position for the fiscal years ended 30 September 1997 and 1996 was not reliable, and financial systems and processes, as well as the associated internal control structure, were not adequate to produce reliable statements. Conditions reported in past audits that precluded us from expressing an opinion on the reliability of the financial statements for Fiscal Year 1992 through Fiscal Year 1996 still exist.

3. Although the Office of Management and Budget does not require budgetary resource reporting until Fiscal Year 1998, the Air Force elected to implement the reporting requirements early and included the Statement of Budgetary Resources in the Fiscal Year 1997 consolidated financial statements. At this point, we have not

completed sufficient audit work to determine whether the Statement of Budgetary Resources is fairly presented. However, we are continuing our review and expect to issue a report on our budgetary resources work at a later date.

4. Our audit disclosed the Statement of Financial Position and Statement of Operations and Changes in Net Position contained material misstatements prior to audit adjustments. To illustrate, the Statement of Financial Position had account overstatements of \$7.9 billion and account understatements of \$5.5 billion. Although DFAS made all appropriate adjustments, sufficient uncertainties regarding other amounts reported precluded us from expressing an opinion on the financial statements. We could not verify the acquisition cost of assets, valued at \$293 billion, because the Air Force does not have a transaction-driven general ledger; many systems are incapable of providing required financial information; the consumption method is not used to recognize operating materials and supplies expenses; and documentation was often not available to support data presented on the financial statements. Conversely, military and civilian pay that account for approximately 41 percent of reported Air Force expenses were fairly presented and associated internal controls properly applied. Air Force logistics systems reliably reported the location and condition of major weapon systems. Also, Air Force environmental, legal, and pension liability reporting improved dramatically, as did accounts payable processing at DFAS operating locations.

## **REPORT ON INTERNAL CONTROLS**

5. Air Force internal controls were generally adequate to physically safeguard assets. However, the Air Force and DFAS internal control structure for financial reporting did not provide reasonable assurance of achieving the internal control objectives described in Office of Management and Budget Bulletin 93-06, Audit Requirements for Federal Financial Statements, 8 January 1993 (as amended on 16 January 1998). We also determined that existing internal controls did not prevent material misstatements in the financial statements. Further, as discussed below, internal controls did not assure compliance with certain laws and regulations.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

6. The Air Force and DFAS were unable to fully comply with laws and regulations that materially affect the financial statements. For example, the financial systems are not in compliance with provisions of federal accounting

standards and do not use the US Government Standard General Ledger as required by the Federal Financial Management Improvement Act.

## **INITIATIVES TO IMPROVE FINANCIAL DATA**

7. The Air Force, DoD, and DFAS continue taking actions to improve Air Force financial data accuracy and reporting. The Secretary of the Air Force Financial Improvement Policy Council meets as needed to address joint Air Force and DFAS issues, and the DoD Acquisition and Financial Management Working Group addresses issues associated with unmatched disbursements and the 48 recommendations contained in the working group report, *Eliminating Unmatched Disbursements, A Combined Approach*, June 1995. DFAS implemented the Direct Contract Payment Notice System and the Automated Reconciliation System to improve controls over the obligation process and reduce the time required to reconcile problem disbursements and discrepancies between Air Force data and DFAS-Columbus Center data. In addition, DFAS has implemented the Defense Civilian Pay System to enhance payroll procedures and efficiency, and the Defense Debt Management System to strengthen controls over debt collection. DFAS accountants made all appropriate audit-recommended adjustments and footnote disclosures to improve the presentation of Air Force financial statement data.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

8. Management is responsible for

a. preparing annual financial statements in accordance with generally accepted accounting principles; Office of Management and Budget Bulletins 94-01, Form and Content of Agency Financial Statements, 16 November 1993; and 97-01, Form and Content of Agency Financial Statements, 16 October 1996;

b. establishing and maintaining internal controls to provide reasonable assurance the internal control objectives in Office of Management and Budget Bulletin 93-06 are met; and

c. complying with applicable laws and regulations.

9. We are responsible for obtaining reasonable assurance about whether (a) the financial statements are reliable (free of material misstatement and presented fairly in conformity with generally accepted accounting principles), and (b) relevant

internal controls are in place and operating effectively. We are also responsible for testing compliance with selected provisions of laws and regulations.

10. To fulfill these responsibilities, we

a. examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

b. assessed the accounting principles used and significant estimates made by management;

c. evaluated the overall presentation of the financial statements;

d. evaluated and tested relevant internal controls; and

e. tested compliance with significant provisions of applicable laws and regulations.

11. We limited our work to accounting and other controls necessary to achieve the objectives outlined in our report on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected.

12. We performed our work in accordance with generally accepted government auditing standards and the provisions of Office of Management and Budget Bulletin 93-06.



JACKIE R. CRAWFORD  
The Auditor General

