Audit Report

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE AIR FORCE AUDIT AGENCY AUDIT OF THE FY 1997 AIR FORCE WORKING CAPITAL FUND FINANCIAL STATEMENTS

Report Number 98-108 April 7, 1998

Office of the Inspector General
Department of Defense

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Acronyms

AFAA	Air Force Audit Agency
GAO	General Accounting Office
IG	Inspector General

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

April 7, 1998

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

SUBJECT: Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1997 Air Force Working Capital Fund Financial Statements (Report No. 98-108)

We are providing this audit report for your information and use and for transmittal to the Director, Office of Management and Budget. It includes our endorsement of the Air Force Audit Agency (AFAA) disclaimer of opinion on the FY 1997 Air Force Working Capital Fund Financial Statements, along with the AFAA "Report of Audit: "Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements." An audit of the Air Force Working Capital Fund Financial Statements is required by the "Chief Financial Officers Act of 1990," as amended by the "Federal Financial Management Act of 1994." Because this report contains no findings or recommendations, written comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175, e-mail rbird@dodig.osd.mil) or Mr. Byron B. Harbert, Audit Project Manager, at (303) 676-7405 (DSN 926-7405, e-mail bharbert@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-108 **April 7, 1998**
(Project No. 7FD-2041)

Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1997 Air Force Working Capital Fund Financial Statements

Executive Summary

Introduction. An audit of the Air Force Working Capital Fund Financial Statements is required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. We delegated the audit of the FY 1997 Air Force Working Capital Fund Financial Statements to the Air Force Audit Agency. This report provides our endorsement of the Air Force Audit Agency disclaimer of opinion on the FY 1997 Air Force Working Capital Fund Financial Statements, along with the Air Force Audit Agency "Report of Audit: Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements."

Audit Objectives. Our objective was to determine the accuracy and completeness of the Air Force Audit Agency audit of the FY 1997 Air Force Working Capital Fund Financial Statements. See Appendix C for a discussion of the audit process.

Audit Results. The Air Force Audit Agency "Report of Audit: Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements," February 27, 1998, stated that the Air Force Audit Agency was unable to express an opinion on the reliability of the FY 1997 Air Force Working Capital Fund Financial Statements. We concur with the Air Force Audit Agency disclaimer of opinion; our endorsement of that disclaimer is at Appendix A. The Air Force Audit Agency report is at Appendix B.

Internal Control Structure and Compliance With Laws and Regulations. The Air Force Audit Agency issued reports on internal controls and compliance with laws and regulations in the Air Force. Those reports are included in the Air Force Audit Agency report.

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Appendix A. Inspector General, DoD, Endorsement Memorandum

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 Working Capital Fund Financial Statements (Project No. 7FD-2041)

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. Before FY 1992, DoD operated a significant number of its commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). On December 11, 1996, the Under Secretary of Defense (Comptroller) restructured DBOF into separate working capital funds. The Inspector General (IG), DoD, was responsible for auditing both the DBOF financial statements and working capital fund financial statements. On January 16, 1997, we delegated to the Air Force Audit Agency (AFAA) the audits of the Air Force Working Capital Fund financial statements.

Summarized are the AFAA disclaimer of opinion on the FY 1997 financial statements and the results of our review of the work conducted by the AFAA. We endorse the disclaimer of opinion expressed by AFAA (see the Enclosure).

Disclaimer of Opinion. The AFAA disclaimer of opinion on the FY 1997 Air Force Working Capital Fund financial statements, dated February 27, 1998, states that the AFAA was unable to express an opinion on the statements. We concur with the AFAA disclaimer of opinion for the reasons summarized below.

o Financial information was unreliable, and financial systems and processes, as well as associated internal control structures, were inadequate to produce reliable financial information.

o Account balances, such as $24.5 billion in inventories and $1.4 billion of property, plant, and equipment, could not be verified because Air Force supply systems were unable to account for those items at cost.

o Air Force Depot Maintenance system general ledgers were not transaction driven.

o The Air Force Depot Maintenance business area did not implement percentage-of-completion accounting for revenues.

In addition, the AFAA did not render an opinion on the FY 1996 financial information included in the FY 1997 Air Force Working Capital financial statements for comparative purposes. The AFAA reviewed the Air Force portion of the FY 1996

DBOF financial statements in support of the IG, DoD, work on the FY 1996 DBOF consolidated financial statements. The IG, DoD, was unable to render an opinion on the FY 1996 DBOF consolidated financial statements because of significant deficiencies in the accounting systems and the lack of a sound internal control structure.

Internal Controls. Internal controls did not ensure that the Air Force Working Capital Fund financial statements contained no material misstatements. For example, the Defense Finance and Accounting Service did not have sufficient internal controls over abnormal balances, and the Depot Maintenance Activity Group did not have sufficient information to properly record $467.8 million of incremental revenue. Further, accounting systems did not ensure that transactions were processed accurately and systems processed only valid transactions. 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 the progress at the key points. We also performed other procedures to satisfy ourselves as to the fairness and accuracy of the approach and conclusions.

We conducted our review of the AFAA work on the FY 1997 Air Force Working Capital Fund financial statements from August 28, 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 opinion or its related evaluations of internal controls and compliance with laws and regulations.

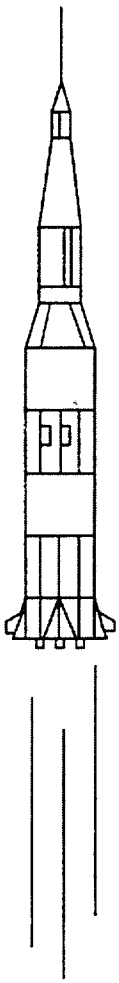
David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosure

Appendix B. Air Force Audit Agency Report

Project 97068043 27 February 1998



REPORT OF AUDIT

OPINION ON FISCAL YEAR 1997 AIR FORCE WORKING CAPITAL FUND FINANCIAL STATEMENTS

AIR FORCE AUDIT AGENCY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

27 February 1998

MEMORANDUM FOR SECRETARY OF THE AIR FORCE
CHIEF OF STAFF, USAF

FROM: SAF/AG

SUBJECT: Report of Audit, Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements (Project 97068043)

This report presents our opinion on the principal Fiscal Year 1997 financial statements, our evaluation of the underlying internal control system, and our assessment of compliance with laws and regulations.

Similar to the past 5 years, we were not able to obtain sufficient evidential matter, or to apply other auditing procedures, to satisfy ourselves as to the fairness of the Working Capital Fund financial statements. As a result, we are unable to express an opinion on the reliability of these statements. However, the Air Force, DoD, and the Defense Finance and Accounting Service (DFAS) continue taking actions to improve Air Force financial data accuracy and reporting.

Assistant Secretary of the Air Force, Financial Management and Comptroller (SAF/FM) comments indicated agreement with our basis for disclaiming an opinion, and Air Force and DFAS have planned actions that address recurring issues related to noncompliance with existing policy or regulations. We consider SAF/FM comments responsive. Although DFAS comments indicated some concern with supporting data presented in the report, these disagreements do not change our disclaimer of opinion. We will meet with DFAS and discuss their concerns and resolve any disagreements.

Jackie R Crawford
JACKIE R. CRAWFORD
The Auditor General

OPINION ON FISCAL YEAR 1997 AIR FORCE WORKING CAPITAL FUND FINANCIAL STATEMENTS

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DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

27 February 1998

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

1. Before Fiscal Year (FY) 1991, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1991, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering opinions on DBOF consolidated financial statements. In December 1996, The Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds. The Inspector General, DoD is responsible for auditing and rendering opinions on the financial statements, for FY 1997 and subsequent years, of the nine working capital fund reporting entities formerly reported under the DBOF. On 16 January 1997, the Inspector General, DoD delegated us the responsibility for auditing and rendering opinion on the FY 1997 Air Force Working Capital Fund financial statements. Therefore, we audited the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1997. The Defense Finance and Accounting Service (DFAS) and Air Force management prepared the accompanying financial statements in accordance with the Government Management Reform Act (GMRA) of 1994. Our audits of the principal financial statements resulted in six 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 controls 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 Working Capital Fund financial statements. As a result, we are unable to express an opinion on the reliability of the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1997. Financial information supporting these statements was not reliable and financial systems and processes,

as well as the associated internal control structure, were not adequate to produce reliable financial information. During FYs 1993 through 1996, the Office of the Under Secretary of Defense (Comptroller) did not identify the Air Force Working Capital Fund as a separate reporting entity requiring audit in accordance with the Chief Financial Officers Act of 1990. Therefore, we did not render an opinion on the accompanying financial statements for the fiscal year ended 30 September 1996.

3. The FY 1997 Air Force Working Capital Fund financial report presented figures from portions of the FY 1996 DBOF Consolidated Financial Statements for comparative purposes. We conducted audit work on the Air Force portion of the FY 1996 DBOF financial statements in support of the IG, DoD audit of the FY 1996 DBOF Consolidated Financial Statements. As a result, we did not render an opinion on the FY 1996 financial information used in the Air Force Working Capital Fund financial statements. The IG, DoD was unable to render an opinion on the FY 1996 DBOF Consolidated Financial Statements as a whole because of significant deficiencies in the accounting systems and the lack of a sound internal control structure. Our audit of the FY 1997 financial statements found, as in prior years, we could not verify account balances such as $24.5 billion in inventories and $1.4 billion of property, plant and equipment because Air Force supply systems are unable to account for inventories at cost and the Air Force depot maintenance system general ledgers are not transaction-driven. In addition, depot maintenance accounting policies do not follow percentage-of-completion accounting for revenues. However, our audits of depot maintenance found reported balances were materially accurate for the following: organic exchangeable item and engine overhaul revenues, organic direct material, and civilian payroll including related accruals.

REPORT ON INTERNAL CONTROLS

4. The internal control structure for financial reporting did not provide reasonable assurance of achieving the internal control objectives described in Office of Management and Budget (OMB) 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 provide a reasonable basis for determining material compliance with certain laws and regulations or for preventing material misstatements in the financial statements. Further, accounting systems contained significant design and internal control deficiencies that preclude assurance all transactions are processed accurately and systems only process valid transactions.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

5. Existing systems and controls did not enable the Air Force and DFAS to fully comply with laws and regulations that materially affect the financial statements. Accounting and non-accounting systems used to support the Air Force financial statements did not meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, Air Force financial systems did not comply with federal requirements for financial management systems and applicable federal accounting standards, and the US Government Standard General Ledger at the transaction level. Additionally, inventories and advances and prepayments are not valued, classified, or disclosed in accordance with Statements of Federal Financial Accounting Standards. Also, accounting practices did not ensure revenues and expenses were recorded in the appropriate year based on accrual accounting practices.

INITIATIVES TO IMPROVE FINANCIAL DATA

6. The Air Force, DoD, and DFAS continue taking actions to improve Air Force financial data accuracy and reporting. The Air Force plans to implement the Defense Industrial Fund Financial Management System (DIFMS) as the core financial accounting system for depot maintenance. A business process review at the Ogden Air Logistics Center started in February 1997 and implementation is scheduled for April 1999. The DIFMS provides a complete transaction-driven accounting system, including required subsidiary ledgers and registers and a fully automated general ledger. Supply management plans to implement the Integrated Logistics System-Supply (ILS-S) during FY 2000. Requirements for the base-level portion of ILS-S were completed in January 1998 and management is developing the operational requirements document to integrate the base and depot systems. In addition, DFAS has current initiatives to redesign the Standard Materiel Accounting System and the Financial Inventory Accounting and Billing System to implement Federal Financial Managers Improvement Act system requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

7. Management is responsible for

a. preparing annual financial statements in accordance with generally accepted accounting principles; OMB 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 that the internal control objectives in OMB Bulletin 93-06 are met; and

c. complying with applicable laws and regulations.

8. 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.

9. 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.

10. 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.

11. We performed our work in accordance with generally accepted government auditing standards and the provisions of OMB Bulletin 93-06.

Jackie R Crawford

JACKIE R. CRAWFORD
The Auditor General

ACCURACY OF ACCOUNT BALANCES

BACKGROUND

1. As of 30 September 1997, the Air Force Working Capital Fund Statement of Financial Position reported total assets of $28.7 billion, liabilities of $3 billion, and net position totaling $25.7 billion. The Statement of Operations reported total revenues and financing sources of $13 billion and expenses of $18 billion.

2. We performed an audit of the accompanying statement of financial position of the Air Force Working Capital Fund as of 30 September 1997 and the related statement of operations and changes in net position for the year then ended to determine if the financial statements fairly presented the Air Force Working Capital Fund financial position as of 30 September 1997. Our opinion is based on draft financial statements Assistant Secretary of the Air Force, Financial Management and Comptroller (SAF/FM) provided on 24 February 1998. (Appendix V) We evaluated the financial statement balance based on generally accepted government auditing standards and management's financial statement assertions. (Appendix I, paragraph 3)

CONCLUSION

3. Material uncertainties exist regarding the reasonableness of amounts reported in the FY 1997 Air Force Working Capital Fund financial statements. Amounts reported on the statements are unauditable, such as $24.5 billion in inventories and $1.4 billion of property, plant, and equipment, because Air Force supply systems are unable to account for inventory at cost and the Air Force depot maintenance systems general ledgers are not transaction-driven. Because of the unverifiable account balances and accounting system inadequacies, we do not express an opinion on the Working Capital Fund financial statements and caution users that these statements may not be totally reliable.

MANAGEMENT ACTIONS

4. In response to this and prior audits,[1] as well as continuing congressional and public concerns, the Air Force, DoD, and DFAS have initiated actions to address the problems discussed in this report. Once management corrects the reported problems, the Air Force should achieve more effective financial control over assets and provide reliable financial information to Air Force senior managers, Congress, and other interested parties. Specifically:

a. Supply Systems. The Air Force is currently designing new base-level and depot-level supply systems. Air Force plans to implement the Integrated Logistics System-Supply at all Air Force bases by FY 1999 and the Seamless Supply System at all air logistics centers by FY 2000. When implemented, these systems will provide the data needed for accounting systems to account for inventory at cost.

b. Depot Maintenance Systems. During FY 1999, the Air Force Materiel Command (AFMC) will implement the Defense Industrial Financial Management System (DIFMS). DIFMS will provide a standard, transaction-driven, financial and cost accounting system for the Depot Maintenance Activity Group.

5. While awaiting the completion of system development efforts, DFAS-Denver Center (DE) and Air Force management should begin addressing several significant issues to improve financial operations and reporting. These issues include accounting for and valuing Air Force inventories and contractor-held Air Force property, and improving internal controls by properly classifying, recording, supporting, and reporting financial transactions. The following paragraphs summarize the significant issues, which preclude an opinion on the Air Force financial statements for the fiscal year ended 30 September 1997.

[1] Reference Appendix III for a summary of prior audits.

AUDIT RESULTS

Summary

6. Our audit work on depot maintenance organic exchangeable item and organic engine overhaul revenues; organic direct material; and civilian payroll including related accruals found these reported balances were materially accurate. However, conditions reported in past audits that precluded us from expressing an opinion on the reliability of the financial statements for FY 1992 and internal control conditions reported in our Air Force supply management and depot maintenance audits during FYs 1993 through 1996 still exist. Also, we found significant conditions that adversely impacted four of the five management assertions embodied in the financial statement components. Consequently, sufficient uncertainties regarding other amounts reported precluded us from expressing an opinion on the consolidated statements.

Management Assertions

7. Significant conditions adversely impacted four of the five management assertions defined by generally accepted government auditing standards[2] and embodied in the financial statements. Specifically, we found significant conditions concerning management assertions related to valuation or allocation, existence or occurrence, completeness, and presentation and disclosure. Nothing came to our attention indicating significant conditions related to the management assertion of rights and obligations. We covered the significant conditions in more detail in separate FY 1997 internal control reports provided to Air Force and DFAS management for comment (Appendix VII and reports published in prior fiscal years [Appendix III]). The following paragraphs address management assertions, an example of the significant conditions we identified for each assertion, and the report that summarizes the conditions.

a. Valuation or Allocation. We identified significant conditions related to the valuation and allocation of amounts reported in Supply Management Activity

[2] Generally accepted government auditing standards incorporate financial statement assertions defined by the American Institute of Certified Public Accountants in the Codification of Statements on Auditing Standards, AU Section 326.

Group inventories and cost of goods sold. To illustrate, Air Force systems and accounting practices did not allow full compliance with Statement of Federal Financial Accounting Standards (SFFAS) Number 3 inventory valuation requirements. Specifically, the systems did not maintain supporting subsidiary records for inventory shipments to and from contractor repair facilities and inventory intransit between contractors and Air Force installations. In addition, DFAS-DE's practice of netting inventory transfer accounts did not provide accurate balances for valuation. As a result, we could not validate $11 billion of inventories at contractor repair facilities and intransit between contractors and Air Force installations. Consequently, the Air Force does not know the accurate value of inventory balances included in the FY 1997 financial statements. (Draft Report of Audit 97068017, Compliance with Federal Financial Accounting Standards)

b. Existence or Occurrence. We identified significant conditions related to whether all assets and liabilities included in the year-end Working Capital Fund financial statements existed at that date and whether all recorded transactions had occurred within the fiscal year ending on that date. To illustrate, the depot accounting and logistics systems did not have adequate edit controls to exclude receipt transactions for goods not purchased with supply management funds from the Purchases at Standard Price account. Also, information interfaced from depot logistics systems did not contain sufficient contract information to correctly classify receipt transactions. Consequently, during 1996 we determined the depot accounting system recorded nonpurchase receipt transactions as purchases and overstated the supply management Purchases at Standard Price account approximately $763.6 million. Management's corrective action was scheduled for completion by 27 February 1998. (Report of Audit 96068002, Expenses and Accounts Payable, Supply Management Business Area, Fiscal Year 1996, 28 November 1997)

c. Completeness. We identified significant conditions concerning the completeness of data included in the year-end Air Force Working Capital Fund financial statements. To illustrate, AFMC depot maintenance accounting entries for recording the $467.8 million incremental revenue generally were made in accordance with the DoD Financial Management Regulation. However, the accounting procedures did not provide for accurate offsets to revenue amounts in the Accounts Receivable, Progress Billings, and Unearned Revenue accounts. As a result, the depot maintenance 31 March 1997 Trial Balance overstated Accounts

Receivable $96.7 million, understated Progress Billings $91.2 million, and understated Unearned Revenue $3.1 million. The Accounts Receivable overstatement implies a future cash receipt that does not exist because the depot maintenance advance billed and collected the funds. (Draft Report of Audit 97068041, Incremental Revenue Recognition, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1997)

d. Presentation and Disclosure. We identified significant conditions related to the way the year-end financial statement amounts were classified, described, and disclosed. To illustrate, progress billings to others totaling about $534 million were presented in the FY 1997 financial statements as a liability instead of a contra to the 'work in process' account. As a result, the assets and liabilities are overstated by $534 million. (Air Force Audit Agency Memorandum for AFMC/LG, AFAA Response: Air Force Working Capital Fund, Depot Maintenance Activity Group Footnotes to the Principle Statements, 28 January 1998)

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REPORT ON INTERNAL CONTROLS

BACKGROUND

1. Management is responsible for establishing and maintaining an internal control structure to provide reasonable but not absolute assurance that inventory, equipment, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and financial resources and expenditures applicable to the business operations are accounted for and properly recorded. A sound internal control structure helps management prepare reliable financial reports in accordance with applicable accounting standards and maintain accountability over assets. In fulfilling this responsibility, management estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

AUDIT RESULTS

Summary

2. We determined that the internal control structure did not provide reasonable assurance of achieving the internal control objectives[3] described in OMB Bulletin 93-06. We identified reportable conditions in the areas of accounting systems and adequate safeguards. We believe these reportable conditions, in combination, result in material weaknesses.

Reportable Conditions

3. Reportable conditions involve significant deficiencies in the design or operation of the internal control structure. Specifically, we identified internal control weaknesses related to accounting systems, reconciliations, cash controls, audit trails, and supporting documentation. These deficiencies could adversely affect achieving the objectives of the internal control structure.

a. Accounting Systems. Due to significant accounting system internal control weaknesses, neither DFAS nor the Air Force can ensure they properly record,

[3] Reference Appendix I, paragraph 5.

process, and summarize only valid transactions and provide accurate financial information[4] (Schedule B-1). DFAS and the Air Force do not have a transaction-driven general ledger to provide a single source for compiling and reporting financial information for use in preparing the Air Force Working Capital Fund financial statements. Air Force and DFAS-DE accounting personnel must extract data from multiple automated systems, as well as some manual systems, to prepare the annual Air Force Working Capital Fund financial statements. Some of the information used in the financial statements comes from Air Force sources that are not part of the financial community. Accounting personnel do not have the means to verify the validity of much of this data. This cumbersome compilation process contributes to control problems in presenting accurate financial statements.

b. Reconciliations. DFAS-DE did not establish an internal control to match and reconcile receipt transactions with invoice payments. Consequently, we could not reconcile supply management receipt transactions with payments or validate that disbursements were for inventory actually received. Specifically, as of 29 February 1996, we identified $540 million in inventory receipts against 1,140 contracts without recorded payments and $58 million in contract payments against 411 contracts without recorded receipts. Without adequate controls to match and reconcile receipt and payment transactions, DFAS could make duplicate payments. Management's plan for corrective action is scheduled for March 1999 with implementation of the Defense Procurement Payment System. (Report of Audit 96068002)

c. Cash Controls. The Air Force did not possess adequate internal accounting controls over Working Capital Fund cash transactions made through other authorized Air Force and DoD activities. As a result, cash managers could not (1) record cash collections and disbursements in the period these transactions occurred, (2) prevent unauthorized and erroneous cash transactions, and (3) comply with public law to validate cash availability before disbursement. (Report of Audit 96068011, Air Force Defense Business Operations Fund Cash Management and Property, Plant, and Equipment, 30 July 1997) Air Force, Army,

[4] The Air Force Audit Agency, in conjunction with SAF/FM, has planned and is executing a 3-year plan to review application controls in all critical Air Force Working Capital Fund accounting and feeder systems. As of January 1998, we have completed 12 of 24 planned reviews. The results of our reviews are summarized in Schedule B-1.

and Navy personnel are currently working with DFAS on initiatives to determine changes needed to improve DoD cash systems.

d. Audit Trails. HQ AFMC did not establish adequate audit trails over Supply Management Activity Group employee assignments and personnel expenses. As a result, we could not determine whether the $111 million of reported employee expenses accurately reflected the cost of managing the Supply Management Activity Group. The lack of adequate audit trails could lead to supply management reimbursing non-supply management employee expenses. Management's plan for corrective action is planned for 1999 when the personnel system is scheduled for upgrade. (Report of Audit 96068002)

e. Supporting Documentation. AFMC personnel did not possess comprehensive control listings (subsidiary ledgers) that accurately summarized and reconciled to the Depot Maintenance Activity group property, plant, and equipment balances of the general ledger control accounts. As a result, the depot maintenance control account balances were either unsupported or varied substantially from existing subsidiary records. Further, without adequate subsidiary ledgers for property, plant, and equipment, the Inspector General, DoD, could not substantiate the balance on the DoD Working Capital Fund financial statement. (Report of Audit 96068011) AFMC is currently implementing the Defense Property Accounting System.

APPLICATION CONTROL WEAKNESSES

APPLICATION CONTROLS	D035A	G004H	D035J	G017	H117	G004B	G037G	H103	G072A	G072D	D035K	D200
Transaction Histories	X	X	X	X	X	X	X			X		X
Audit Trails	X	X	X	X	X	X	X			X		
Double Entry Accounting												
Electronic Interface		X		X		X	X	X	X	X		
Transaction Controls												
Access Controls	X		X	X	X		X	X	X	X	X	X
Separation of Duties			X		X		X	X	X	X		
System Edits				X				X				
Query Languages	X		X					X			X	
Transaction Processing			X	X	X	X			X	X	X	
Support for Transactions				X					X	X		
Error Correction		X	X	X			X		X			
Data Verification				X	X							
Data Reconciliation	X		X	X	X			X				
System Change Controls	X						X		X			
System Testing	X		X									
System Documentation	X		X	X		X		X	X	X	X	
Computational Accuracy			X									
Usefulness of Data		X		X		X	X	X				
System Reviews	X	X	X	X	X	X	X	X	X	X	X	

D035A Item Manager Wholesale and Retail Requisition Process
G004H Actual Material Cost System
D035J Financial Inventory and Billing System
G017 Depot Maintenance Equipment Program
H117 Time and Attendance Reporting System
G004B Project Order Control System
G037G Maintenance Labor Distribution and Cost System
H103 Central Procurement Accounting System
G072A Depot Maintenance Production and Cost System
G072D Contract Depot Maintenance Production and Cost System
D035K Wholesale and Retail Receiving and Shipping System
D200 Requirements Data Bank

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

BACKGROUND

1. Air Force Working Capital Fund management is responsible for establishing an internal control structure to assure compliance with applicable laws and regulations. Issues that should concern management include:

a. Resources. Compliance with laws and regulations that could significantly affect the acquisition, protection, and use of Air Force Working Capital Fund resources, and the quantity, quality, timeliness, and cost of the products and services it produces and delivers.

b. Programs. Compliance with laws and regulations pertaining to the objectives of Air Force Working Capital Fund programs, activities, and functions; the manner in which programs and services are to be delivered; the population a program or service is to serve; and whether the programs, activities, and functions are being carried out in conformity with these laws and regulations.

2. Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause others to perceive the misstatements as significant. (Appendix VI lists the laws and regulations reviewed during this audit.)

3. The Secretary of the Treasury, Director of the Office of Management and Budget, and Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB) in October 1990 to develop Federal Government accounting standards to improve the usefulness of federal financial reports. The board developed and published eight standards with initial implementation dates between FYs 1994 through 1998. During FY 1997, we determined whether DFAS and the Air Force effectively implemented the provisions of Standard 1, Selected Assets and Liabilities, and Standard 3, Inventory and Related Property, because these standards became effective in FY 1994. In addition, we determined the Air Force's ability to comply with Standard 7, Revenue and Other Financing Sources, when it becomes effective in FY 1998.

AUDIT RESULTS

Compliance With Laws and Regulations

4. Existing systems and controls did not enable the Air Force and DFAS to fully comply with laws and regulations that could have a direct and material effect on the FY 1997 Air Force Working Capital Fund financial statements. We identified instances of noncompliance with the Statements of Federal Financial Accounting Standards (SFFAS) and Public Law, Title 31, Money and Finance. Examples are provided below:

a. Statements of Federal Financial Accounting Standards.

(1) DFAS-DE did not comply with SFFAS Number 1, Accounting for Selected Assets and Liabilities, to report progress payments separately from Advances and Prepayments in the year-end financial statements. Consequently, the Air Force Supply Management Activity Group included $125 million of progress payments with Advances and Prepayments in the financial statements. Consequently, financial statement users lack information necessary to distinguish between payments for work completed and work not yet performed. (Draft Report of Audit 97068017)

(2) Air Force systems and accounting practices did not allow full compliance with SFFAS Number 3 inventory valuation requirements. Specifically, the systems did not maintain supporting subsidiary records for inventory shipments to and from contractor repair facilities and inventory intransit between contractors or Air Force installations. In addition, the DFAS-DE practice of netting inventory transfer accounts did not provide accurate balances for valuation. As a result, we could not validate $11 billion of inventory at contractor repair facilities or intransit between contractors or Air Force installations included in Air Force trial balances. Consequently, the Air Force does not know the accurate value of inventory balances at contractor facilities or intransit included in the FY 1997 financial statements. (Draft Report of Audit 97068017)

(3) DoD and AFMC depot maintenance revenue recognition policies did not comply with percentage-of-completion requirements in SFFAS Number 7. If AFMC implemented the DoD policy, the Depot Maintenance Activity Group (DMAG) would not properly match revenue of $1.8 billion and cost of $1.9 billion

in the fiscal year incurred. Also, the AFMC Incremental Revenue Recognition policy increased the risk of improperly matching revenues and related costs in the fiscal year incurred. (Draft Report of Audit 97068001, Selected Revenue Accounts, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1997)

b. Public Law, Title 31, Money and Finance. During FY 1997, Air Force and other DoD disbursing officers disbursed Air Force Working Capital Funds totaling $16.4 billion without determining the availability of cash at the United States Treasury, as public law requires. For example, in September 1997, disbursing officers worldwide disbursed Air Force Working Capital Fund cash totaling $1.4 billion without determining whether sufficient cash existed. The Air Force Working Capital Fund maintained an average monthly cash balance of $441 million (ranging from a high of $904 million in December 1996 to a low of $89.6 million in November 1996). Monthly disbursements averaged $1.37 billion, and collections averaged $1.36 billion. Consequently, disbursing officer compliance with the public law becomes critical to avoid violations of the Antideficiency Act. (Report of Audit 96068011) Report of Audit 96068011 disclosed disbursement information in FY 1996. We updated the dollar amounts in this report to disclose FY 1997 amounts.

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BACKGROUND INFORMATION

GENERAL

1. **Statutory Requirements.** Not later than 1 March 1998, and each year thereafter, the Government Management Reform Act (GMRA) requires the head of DoD to prepare and submit to the Director of OMB an audited financial statement for the preceding fiscal year for each office, bureau, and activity of the department. Not later than 31 March 1998, and each year thereafter, the GMRA requires the Secretary of the Treasury, in coordination with the Director of OMB, to prepare and submit to the President and Congress an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the government. DoD has published timeframes to be used within the department for financial statement preparation and audit.

2. **FY 1997 Financial Statement Balances.** As of 30 September 1997, the Air Force Working Capital Fund Statement of Financial Position reported total assets valued at about $28.7 billion, liabilities of $3 billion, and net position totaling $25.7 billion. The Statement of Operations reported total revenues and financing sources of $13 billion and expenses of $18 billion.

3. **Financial Statement Assertions.** Included in the financial statements are implied assertions of correctness related to the information presented. The five financial statement assertions implied by management are:

a. Existence or Occurrence. Assets and liabilities of the Working Capital Fund exist at a given date, and recorded transactions occurred during the reporting period.

b. Completeness. All Working Capital Fund transactions that should be presented in the financial statements are included.

c. Rights and Obligations. The reporting Working Capital Fund has rights to assets or obligations for liabilities at a given date.

d. Valuation or Allocation. Working Capital Fund asset, liability, revenue, and expense components have been included in the financial statements at the appropriate amount.

e. Presentation and Disclosure. Components of the Working Capital Fund financial statements are properly classified, described, and disclosed.

INTERNAL CONTROLS

4. **Purpose of Internal Controls.** The DoD Financial Management Regulation, Volume 1, states that the objectives of internal controls are to reasonably assure that

a. obligations and costs comply with applicable laws;

b. all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and

c. revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial reports may be prepared and accountability of assets may be maintained.

5. **Internal Control Structure.** "Internal control structure," as it relates to the financial statements required by the Chief Financial Officers Act and as discussed in OMB Bulletin 93-06, means the plan of organization and policies and procedures adopted by management to provide reasonable assurance that the following objectives are met:

a. Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

b. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

c. Transactions, including those related to obligations and costs, are executed in compliance with (1) laws and regulations that could have a direct and material effect on the principal statements and, where applicable, combining statements and (2) any other laws and regulations that OMB, entity management, or the Inspectors General have identified as being significant for which compliance can be objectively measured and evaluated.

AUDIT SCOPE AND PRIOR AUDIT COVERAGE

AUDIT SCOPE

1. Management is responsible for

a. preparing the annual financial statements in conformity with applicable accounting principles,

b. establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and

c. complying with applicable laws and regulations.

2. The Air Force Audit Agency must plan and perform an audit to obtain reasonable assurance that (a) the financial statements are reliable (free of material misstatement and presented fairly in conformity with OMB Bulletins 94-01 and 94-07, and applicable accounting principles) and (b) relevant internal controls are in place and operating effectively. The Air Force Audit Agency must also test compliance with selected provisions of laws and regulations and perform limited audit procedures with respect to testing the consistency of other information presented in the annual financial statement with the consolidated financial statements.

3. 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. tested compliance with selected provisions of laws and regulations listed at Appendix VI, and

e. evaluated and tested relevant internal controls.

4. We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our work to accounting and other controls necessary to achieve the objectives outlined in our opinion on internal controls. Because of inherent limitations in any system of internal control, losses, noncompliance, or misstatements may nevertheless occur and not be detected. During the audit, we relied on computer-based data from major supply management and depot maintenance accounting and feeder systems. Although the scope of our audits did not always include a comprehensive test of system general and application controls to confirm the reliability of data, our prior audit coverage of most of these systems disclosed application control weaknesses. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may increase or deteriorate.

5. We conducted our audit in accordance with generally accepted government auditing standards and the provisions of OMB Bulletin 93-06. We accomplished the audit from January to December 1997 at SAF/FM; DFAS locations (HQ DFAS, DFAS centers, and DFAS operating locations); HQ AFMC; and Air Force active duty units. Specific locations are listed in the individual audit reports identified at Appendix VII. A draft of this report was provided to management in February 1998.

PRIOR AUDIT COVERAGE

6. We identified the following General Accounting Office (GAO) and Air Force Audit Agency reports that included objectives similar to those included in this review.

a. GAO also performed an audit of the Defense Business Operations Fund in Fiscal Year 1995 and issued Report to Congressional Committees (GAO/AIMD-95-79), Management Issues Challenge Fund Implementation, March 1995. This report addressed the DoD revenue recognition policy for depot maintenance operations. The report concluded that unless depot maintenance completed work within the same fiscal year DMAG accepted an order, DMAG should account for its revenue under the percentage-of-completion method.

b. GAO AFMC-90-23, Air Force Does Not Effectively Account for Billions of Dollars of Resources, February 1990, reported that air logistics centers and

bases made significant adjustments to accounting records that appeared incorrect, were of questionable purpose, and were not documented. Further, GAO stated accounting personnel made some adjustments to force control accounts and subsidiary records to agree.

c. The Air Force Audit Agency audited the Air Force supply management and depot maintenance financial management operations and procedures for preparing consolidated Defense Business Operations Fund financial statements and reports for Fiscal Years 1992 through 1996. As a result of these reviews, the Air Force Audit Agency issued the reports listed in Appendix III. These reports contain internal control and regulation compliance issues similar to those discussed in this report.

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AIR FORCE AUDIT AGENCY PRIOR-YEAR REPORTS

Report Title	Report Number Date Issued
Preliminary Report - Air Force Supply Operations, Fuels Division, Fiscal Year 1992 Financial Statement (Project 92068013)	92068014 9 Oct 92
Review of General and Application Controls Within the Contract Depot Maintenance Production and Cost System	92066010 1 Apr 93
Opinion on Air Force Depot Maintenance Service, Defense Business Operations Fund, Fiscal Year 1992 Financial Statements	92068002 30 Jun 93
Opinion on Air Force Supply Management, Defense Business Operations Fund, Fiscal Year 1992 Financial Statements	93068011 30 Jun 93
Opinion on Air Force Distribution Depot, Defense Business Operations Fund, Fiscal Year 1992	93068012 30 Jun 93
Opinion on Air Force Consolidating Statements, Defense Business Operations Fund, Fiscal Year 1992 Financial Statements	93068024 30 Jun 93
Internal Control and Management Issues Related to Air Force Supply Management, Systems Support Division, Fiscal Year 1992 Financial Statements	92068040 16 Nov 93
Internal Control and Management Issues Related to Air Force Supply Management, Cost of Operations Division, Fiscal Year 1992 Financial Statements	92068004 3 Dec 93
Compliance with Laws and Regulations and Management Issues Related to Air Force Supply Management and Distribution Depot, Fiscal Year 1992 Financial Statements	93068001 15 Dec 93

Report Title	Report Number Date Issued
Internal Control and Management Issues Related to Air Force Supply Management, Fuels Division, Fiscal Year 1992 Financial Statements	92068013 16 Dec 93
Internal Control and Management Issues Related to Air Force Supply Management, General Support Division, Fiscal Year 1992 Financial Statements	92068010 12 Jan 94
Management of Depot Maintenance Project Orders	92062005 25 Jan 94
Internal Control and Management Issues Related to Air Force Supply Management, Reparable Support Division, Fiscal Year 1992 Financial Statements	92068012 28 Jan 94
Air Force Depot Maintenance Service, Fiscal Year 1993 Materiel In-Transit Balances	94068025 1 Apr 94
Internal Control and Management Issues Related to Disbursements for Supplies and Services, Fiscal Year 1993 Financial Statements	93068007 15 Apr 94
Review of Application Controls Within the Depot Maintenance Actual Material Cost System	93066023 10 Jun 94
Financial Reporting of Fiscal Year 1993 Accrued Liabilities Within the Depot Maintenance Service Business Area	93068009 21 Jun 94
Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Inventories Held For Sale Balances	94068017 30 Jun 94
Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Inventories Not Held For Sale Balances	94068018 30 Jun 94
Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Property, Plant, and Equipment Balances	94068019 30 Jun 94

Report Title	Report Number Date Issued
Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Fund Balance With Treasury	94068020 30 Jun 94
Financial Reporting of Fiscal Year 1993 Revenue, Accounts Receivable, and Progress Billing Within the Depot Maintenance Service Business Area	93068008 1 Jul 94
Financial Reporting of Fiscal Year 1993 Property, Plant, and Equipment Within the Depot Maintenance Service and Supply Management Business Areas	93068010 1 Jul 94
Financial Reporting of Fiscal Year 1993 Revenues and Expenses Within the Supply Management Business Area (Consolidates Projects 93068014 and 93068015)	93068031 1 Jul 94
Financial Reporting of Fiscal Year 1993 Medical/Dental Division Inventories Within the Supply Management Business Area	93068002 11 Jul 94
Financial Reporting of Fiscal Year 1993 Inventories Not Held for Sale Within the Depot Maintenance Service Business Area	93068006 8 Aug 94
Financial Reporting of Fiscal Year 1993 Disbursements and Collections Within the Air Force Defense Business Operations Fund	94068026 8 Aug 94
Financial Reporting of Fiscal Year 1993 Inventories Within the Supply Management Business Area	93068016 26 Aug 94
Review of Application Controls Within the Financial Inventory Accounting and Billing System	93066024 3 Oct 94
Review of Application Controls Over Time and Attendance Reporting in Air Force Materiel Command Depot Maintenance Organizations	94066012 4 Nov 94

Report Title	Report Number Date Issued
Review of Application Controls Within the Depot Maintenance Equipment Program	94066011 16 Nov 94
Review of Selected Accounts, Supply Management Business Area, Fiscal Year 1994	94068041 27 Jun 95
Review of the Air Force Defense Business Materiel Accounting System, Reparable Support Division	94068038 28 Jun 95
Review of Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1994	94068039 28 Jul 95
Follow-up Audit--Review of Prior Year Defense Business Operations Fund Recommendations	94068042 18 Aug 95
Follow-up Audit--Review of Prior Year Defense Business Operations Fund Recommendations	94068027 25 Oct 95
Selected Accounts, Supply Management Business Area, Fiscal Year 1995	95068020 20 Aug 96
Review of Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1995	95068021 13 Sep 96
Government-Furnished Material and End Item Transaction Reporting System (G009)	96068009 12 Nov 96
Sales and Accounts Receivable, Supply Management Business Area, Fiscal Year 1996	96068013 27 May 97
Inventory Accounts, Supply Management Activity Group, Fiscal Year 1996	96068012 18 Jun 97
Air Force Defense Business Operations Fund Cash Management and Property, Plant, and Equipment, Fiscal Year 1996	96068011 30 Jul 97

Report Title	Report Number Date Issued
Controls Over Stock Control and Distribution System Data Modification	96068016 21 Aug 97

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VERBATIM MANAGEMENT COMMENTS

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

U.S. AIR FORCE 1947 - 1997

Office Of The Assistant Secretary

MEMORANDUM FOR SAF/AG

FROM: SAF/FM

SUBJECT: Management Comments to the Air Force Audit Agency (AFAA) Draft Report of Audit. Opinion on the Fiscal Year 1997 Air Force Working Capital Fund Financial Statements (Project 97068043)

We appreciate the opportunity to review and comment on this report. These comments are limited to this consolidated report. Specific comments will be provided to the underlying reports when you provide them for our review.

We acknowledge that you are unable to express an opinion on the reliability of these financial statements for fiscal year 1997, and we recognize that you will be unable to issue an unqualified audit opinion on our statements until the Air Force and the Defense Finance and Accounting Service (DFAS) improve a large number of accounting systems and resolve other accounting related issues. Even though the systems issues will take a number of years to resolve, we believe that we are making steady progress and will continue to do so in the future.

As you summarized in paragraph 6 of your opinion and detailed in paragraph 4 of Tab A, the Air Force, DoD, and DFAS are aggressively working a number of management initiatives to correct the problems and improve the accounting processes. We all remain firmly committed to producing auditable financial statements. We will continue to work with the AFAA, DFAS, and other groups to improve the accounting systems and resolve the related accounting issues as quickly as possible in order to bring about these results.

Robert F. Hale

Golden Legacy, Boundless Future... Your Nation's Air Force

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/ASR

FEB 27 1998

MEMORANDUM FOR AUDITOR GENERAL OF THE AIR FORCE

SUBJECT: Air Force Audit Agency Draft Report of Audit, "Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements" (Project No. 97068043)

We received an advance copy of the subject draft report. This report is based on the supporting audits performed on the FY 1997 Air Force Working Capital Fund financial statements. Specific comments will be provided on the individual reports after we have had an opportunity to review the reports. Our general comments on this advance copy of the draft report are attached.

My points of contact are Mr. Ronal Boothe, (703) 607-1377, or Mrs. Adrienne Ferguson, (703) 607-1581.

Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DODIG
DCFO

Air Force Audit Agency Draft Report of Audit, "Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements" (Project No. 97068043)

This advance draft report is based on the supporting audits performed on the FY 1997 Air Force Working Capital Fund financial statements. We have not had the opportunity to review those reports. We will be providing specific comments on the individual reports under separate memoranda after we have had an appropriate opportunity to review the reports.

We have the following comments on this draft report.

1. Page 5, Tab A, Section 7.d: To illustrate, progress billings to others totaling about $534 million was presented in the FY 1997 financial statements as a liability instead of a contra to the 'work in process' account. As a result, the assets and liabilities are overstated by $534 million.

   DFAS Comments: Guidance in DoD Financial Management Regulation (FMR) Volume 6, Chapter 6, pages 6-29 and 6-43 indicates that DoD account 2994, Progress Billings to Others, are included on line 4.a.(4), Other Intragovernmental Liabilities.

   Progress billings to others are made on the basis of the terms of agreement of the applicable order, not based upon when work is performed. Therefore, all the progress billings must be recorded as a liability rather than a contra-asset to comply with FASAB Standard 5, Accounting for Liabilities of the Federal Government.

2. Page 8, Tab B, Section 3.b: DFAS-DE did not establish an internal control to match and reconcile receipt transactions with invoice payments. Consequently, we could not reconcile Supply Management receipt transactions with payments or validate that disbursements were for inventory actually received. Specifically, as of February 29, 1996, we identified $540 million in inventory receipts against 1,140 contracts without recorded payments and $58 million in contract payments against 411 contracts without recorded receipts. Without adequate controls to match and reconcile receipt and payment transactions, DFAS could make duplicate payments.

Attachment

DFAS Comments: The DFAS entitlement process matches receipts to invoices before payment. This section implies that this requirement is not being met and states that DFAS could make duplicate payments as a result. We believe that the auditors are not reviewing the source entitlement officials' records to determine if the required match is occurring before payment. Rather, the auditors are using files of receipts and disbursements obtained from various sources that may or may not be complete and timely. Unless the auditors are using the source entitlement officials' records to conduct their reviews, the findings and assertions will not be based upon relevant data.

3. Pages 8 and 9, Tab B, Section 3.c: The Air Force did not possess adequate internal accounting controls over Working Capital Fund cash transactions made through other authorized Air Force and DoD activities. As a result, cash managers could not (1) record cash collections and disbursements in the period these transactions occurred, (2) prevent unauthorized and erroneous cash transactions, and (3) comply with public law to validate cash availability before disbursement.

DFAS Comments: The first sentence of this assertion implies that the entire DoD financial network processes for transactions for others, cross disbursing and interfund processing are without adequate internal controls. This assertion is not valid. Disbursing officers throughout the DoD finance network ensure that there is adequate support before making disbursements for others.

It is true that collections and disbursements are not always recorded in the activity level records in the period made. However, we do not agree that the collections and disbursements are not included in the cash balances for the period in which they occurred, since these amounts are included in the trial balances in the month in which they occurred. The DoD process of valuing, recording and reporting undistributed collections and undistributed disbursements is in place to ensure that the monthly and yearly trial balances and financial reports reflect this activity in the proper accounting period.

We are unaware of any public law which requires validation of cash availability before disbursement. A violation of the Antideficiency Act would occur if Air Force management

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allowed the total Treasury balance to become negative. There are management options available to the Air Force other than specific validation of each disbursement to preclude an overall negative balance. In addition, the Department of the Treasury only maintains an official cash balance as of the end of each month based upon monthly reports submitted by DoD and other Federal agencies. Therefore, there is no existing Treasury balance available to validate cash availability on a current basis.

4. Pages 11 and 12, Tab C, Sections 3 and 4.a: This discussion identifies the Federal Accounting Standards Advisory Board (FASAB) standards that have been implemented by the Air Force and the DFAS.

DFAS Comments: It should be noted that FASAB Standard 5, Accounting for Liabilities of the Federal Government, was also implemented in the FY 1997 Air Force Working Capital Fund financial statements and notes. This standard requires that imputed revenue and expenses for pensions and other retirement benefits (CSRS, FERS, Health Insurance, and FEGLI) to be reported on the CFO financial statements. The DFAS obtained data from various sources for the total number and salaries of DoD civilian personnel and the expense data were reported by the DFAS Denver Center on the FY 1997 CFO statement and notes.

5. Page 13, Tab C, Section 4.b: During FY 1997, Air Force and other DoD disbursing officers disbursed Air Force Working Capital Funds totaling $16.4 billion without determining the availability of cash at the United States Treasury, as public law requires. For example, in September 1997, disbursing officers worldwide disbursed Air Force Working Capital Fund cash totaling $1.4 billion without determining whether sufficient cash existed. The Air Force Working Capital Fund maintained an average monthly cash balance of $451 million (ranging from a high of $904 million in November 1996 to a low of $89.6 million in October 1996). Monthly disbursements averaged $1.37 billion, and collections averaged $1.36 billion. Consequently, disbursing officer compliance with the public law becomes critical to avoid violations of the Antideficiency Act.

DFAS Comments: See comments in item three above.

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DEPARTMENT OF THE AIR FORCE

FISCAL YEAR 1997
AIR FORCE WORKING CAPITAL FUNDS

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE MATERIEL COMMAND
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433-5001

February 1998

Message from the Commander of the Air Force Materiel Command

Landmark legislation, such as the 1990 Chief Financial Officers (CFO) Act, the 1993 Government Performance and Results Act (GPRA), and the 1996 Federal Financial Management Improvement Act (FFMIA), require government agencies to produce accurate, complete, and timely financial statements for better performance measurement and strategic planning. Indeed, within the Defense Working Capital Fund (DWCF) in general, and the Air Force Working Capital Fund (AFWCF) in particular, tremendous strides are being made toward meeting these requirements. While Air Force Materiel Command (AFMC) does not have responsibility for the entire AFWCF, I would like to tell you what we are doing in the three areas we do manage. We manage the majority of the Supply Management Activity Group (SMAG), the Depot Maintenance Activity Group (DMAG), and the Information Services Activity Group (ISAG). Together, they represent about 95 percent of the AFWCF in FY97. We are a combat support command, so the mission must come first. But we continually seek ways to improve our support to the warfighters while reducing costs. One or the other is not an option in today's environment: we can be both effective and efficient at the same time. Nowhere is this more essential than in the DWCF arena.

Accordingly, 1997 has been a transitional year for AFMC as we have made significant philosophical changes in our approach to business. As Chief Executive Officer (CEO) of AFMC, I have established a business structure within the command. AFMC is now an enterprise with eight business areas, each of which is managed by a responsible Chief Operations Officer (COO). SMAG, DMAG, and ISAG are three of these eight areas. By applying proven business tools and practices to these business areas, we will ensure accountability, set performance goals, measure progress, and produce results, including responsible cost management as required by the CFO Act. Our ultimate goal is to reduce the cost of support AFMC provides to the warfighter while satisfying all customer contracts in a timely manner and with a quality product. This will require a shift in operational focus to an output driven approach. Understanding the underlying cost of our output is essential to setting performance improvement goals, and measuring our progress towards achieving them as required by the GPRA. In 1997, each of our air logistics center (ALC) commanders and the Commander, Electronic System Center designated their own COOs for each business at their center and initiated basic performance "contracts" that made them accountable for achieving certain levels of readiness and managerial effectiveness and efficiency. While we have not achieved all of the desired performance levels thus far, the groundwork is now in place for continual performance measurement--and improvement.

In fact, in 1998 I have issued a challenge to each of our AFWCF businesses to not just break-even, but to reduce expenses in their respective activities through emphasis on cost reduction. They will accomplish this by improving the responsiveness and quality of depot maintenance, supply management and information systems development, and by reducing cycle time in their repair, contracting, and distribution activities. In 1998, each of the business COOs will develop a business plan and the centers will build supporting execution plans to serve as baselines from which we will measure our operational and financial success. FY98 unit costs for each business will be the baseline against which outyear cost reduction commitments will be made in the FY2000-2005 program objective memorandum.

We realize the standardized, annual CFO reports, like this one, provide valuable information. Yet the annual reports to date have only captured data at the departmental level. It is essential we continually strive to provide data in more meaningful and timely ways. For this reason, we will work with DFAS in FY98 to build CFO reports by center and product divisions and I have tasked the AFMC CFO to develop usable, managerial financial reports monthly for each business area

Finally, several financial system improvement initiatives are underway or under study for our AFWCF businesses. Soon, the Defense Industrial Funds Management System (DIFMS) will enhance the DMAG financial management business processes and provide improved financial accountability. This will be a significant step in improving our ability to track and control costs in accordance with CFO Act requirements. We are also currently awaiting a HQ DFAS decision on an alternative analysis to redesign or replace the Industrial Fund Accounting System for better visibility of financial data in the ISAG. And we will soon look at options to replace the automated financial management information and accounting systems for the Material Support Division of the SMAG for AFMC. This will be another significant enhancement in our ability to track and control costs in accordance with the CFO Act.

Yes, 1998 is a year of challenges—and opportunities. By responding to these challenges, we have the opportunity to contribute significantly to the war fighter's continued readiness in these dynamic times of dwindling resources.

GEORGE T. BABBITT
General, USAF
Commander

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE ASSISTANT SECRETARY

February 1998

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

I am pleased to present the Air Force statement for our Working Capital Funds for FY 1997. This statement fulfills the requirements of the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA).

This statement documents the FY 1997 revenues and costs associated with Air Force activities related to supply, depot maintenance, and information systems. In addition, the overview material provides descriptive information and selected measures of performance. Our intent is to provide Air Force commanders, the Congress, and the public with helpful information and the ability to assess our financial stewardship of these activities.

Within our working capital funds, we are taking a first step toward compliance with the Government Performance and Results Act (GPRA). Starting in FY 1997, the Air Force established performance plans for each of the centers that carry out supply and depot maintenance activities. These plans specified financial results including revenues, costs, and net operating results. They also specified measures of output such as on-time performance of depot maintenance and timeliness of supply actions. These financial and performance measures, many of which are documented in the overview section of this statement, provide the basis for regular reviews of the performance of our supply and depot maintenance activities. Our working capital funds are examples of GPRA in action in the Air Force.

The Air Force takes its responsibility for stewardship of our working capital funds seriously. We are committed to continued improvement in their financial and operational performance.

Robert F. Hale

Robert F. Hale

DEPARTMENT OF THE AIR FORCE

AIR FORCE WORKING CAPITAL FUNDS

OVERVIEW

Overview

Overview

INTRODUCTION

AFWCF MISSION

In December 1996, the Under Secretary of Defense (Comptroller) restructured the Defense Business Operations Fund (DBOF) into individual Service and Agency Defense Working Capital Funds (DWCF). **Air Force Working Capital Funds (AFWCF)** retain many of the benefits of DBOF, such as:

- Establishing a unified financial management framework with standardized, updated policies.
- Building on the advantages of revolving fund management to customers, for example, year-to-year cost stability and continuity of support over annual appropriation cycles.
- Identifying clearly the total costs of providing support to the operating forces.
- Improving customer resource management through greater latitude and better information for economic decision making.
- Enhancing the effectiveness of revolving fund management through cost per output and performance measures.

MISSION RESULTS

The impact of AFWCF support on mission capability may be gauged by the trends reflected in key readiness indicators, such as:

- ***Supply Stockage*** and ***Issue Effectiveness*** - measures of the ability of supply management to satisfy demands.
- ***Supply Inventory Turn Rates*** - the ratio of sales to the value of inventory.
- Depot Maintenance ***Aircraft Delivery Performance*** - the percent of aircraft delivered from depot maintenance on or before negotiated delivery dates.

Air Force Mission Capable (MC) rates have continued a gradual decline in recent years, and Total Not Mission Capable for Supply (TNMCS) rates are rising. Status of Resources and Training (SORTS) indicators are up 2.5 % over the last year for flying units reporting C3 or C4 in the Equipment and Supplies on hand category, however over 90 percent of reporting units report C1 or C2 overall capability ratings. This indicates the Air Force still possesses the resources and training to undertake all or most of the wartime mission, but the downward trend is a concern to our combat commanders. AFWCF business areas are not the only determinants of these metrics, but the fact that overall wartime capability ratings have remained fairly stable is a clear indication that AFWCF support effectiveness has remained relatively consistent despite the budget and personnel reductions of recent years. SMAG overall issue and stockage effectiveness

Overview

rates are right at goal levels, however, due to unique contingency requirements, inventory turn rates remain below the manufacturing industry standard.

The Depot Maintenance Activity Group (DMAG) customer support effectiveness measures show improved performance. While due date performance declined slightly in FY97, flow day performance (the number of days needed to complete work on aircraft) improved by 31% during FY97. Quality defect rate dropped significantly--giving the customer a better quality product in less time than in FY96.

The ISAG began the FY with two separate Central Design Activities (CDAs) under the auspices of Electronic Systems Center (ESC). In order to reduce overhead and streamline operations the two CDAs were combined to provide one face to the customer. In spite of growing pains, goals of moving toward modern logistics systems remain on track. The CDA continues to improve the caliber of its work by upgrading to Level III Software Institute/Capability Maturity Model certification; final certification should be completed in FY 98.

The management performance displayed by these indicators is remarkable in light of the major force structure and mission changes, base realignments and closures, and personnel reductions experienced over the last several years.

FINANCIAL RESULTS

Key indicators measure the effectiveness of AFWCF management in managing the resources needed to provide that support. Typical measures are:

- ***Net Operating Results*** - a bottom-line profit and loss indicator.
- ***Organic Expenses per Direct Product Standard Hour*** - a measure of cost per output.

The ***Net Operating Result*** (NOR) represents the profit or loss from operations. The objective for each Supply Management Activity Group (SMAG) budget is to break even, accomplished by establishing prices to off-set the previous budget year's profit or loss. The ***Unit Cost Ratio*** represents the ratio of costs to sales. The Supply Management unit cost ratio goal was set at $.959; actual end of year unit cost ratio was $.96.

The depot maintenance environment is changing to better respond to the new force structure and technology. One of the primary impacts to the depot structure is the on-going Base Realignment and Closure (BRAC) implementation. The realignment/closure of the San Antonio and Sacramento Air Logistics Centers (ALCs) represent the largest depots to be closed by the BRAC processes. It is recognized that during the period of transition these BRAC actions will result in reduced productivity and other losses that are inherent in any downsizing effort, especially reductions of this magnitude. The impact of workforce realignment due to Reduction-in-Force (RIF) and early-out authority is significant. Workforce reductions cause loss of production and skill imbalances that require additional training. This lower level of productivity negatively impacted our financial effectiveness measures. For FY98 and FY99 we have programmed realistic productivity assumptions during this period of transition. The AFMC Commander has

Overview

established performance contracts with each center commander on key financial effectiveness measures for FY98.

The Information Systems Activity Group (ISAG) is a new working capital fund and is consequently suffering some growing pains. The Air Force anticipated a loss of $10M in FY 97; however, due to some delivery orders being billed as fixed price contracts, the FY 97 NOR was a positive $4M. The disbursements associated with this contract will occur in FY 98, balancing FY 97 and FY 98 to the Air Force plan.

REMAINING CHALLENGES

The next few years will present even greater challenges. Two Air Logistics Centers will complete closure and realignment. Further downsizing and restructuring of Air Force wholesale support activities is planned under the DoD's ongoing outsourcing and privatization initiatives. In addition, Central Design Activities are being studied for potential outsourcing. Effective change implementation will require full participation of AFWCF management in simultaneously shifting a large part of the organic workload among depots and to contractors, seeking innovative and cost saving process improvements, and ensuring no degradation of support to the Air Force mission.

Overview

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:

Integrity First	Everyone must know the right thing to do - - and have the moral courage to do it
Service Before Self	One purpose rises above all others - - to serve your country
Excellence In All We Do	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:

Air & Space Superiority	Establishing control over the entire vertical dimension
Global Attack	Project power rapidly, precisely, and globally
Rapid Global Mobility	Ability to rapidly and flexibly respond to the full spectrum of contingencies
Precision Engagement	Ability to reliably and selectively apply the full range of precision capabilities to achieve the desired effect with minimal risk and collateral damage
Information Superiority	The ability to collect, control, exploit, and defend information, while denying the adversary the same
Agile Combat Support	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.

Overview

GENERAL STATEMENT

The Air Force logistics community, with its development, acquisition, test, and operational support *core competencies*, is an important player in this advance into the future. One of the principal means by which the Air Force is proceeding, is through a comprehensive set of actions to foster the *core competency* of **Agile Combat Support**:

PROCESS IMPROVEMENTS

Wholesale logistics initiatives implemented to enhance both the customer support effectiveness and operational efficiency of Air Force wholesale logistics activities include: Lean Logistics and the Depot and Contract Repair Enhancement Programs. Overall, the initiatives are reducing pipeline times for maintenance and supply processing, reducing inventory and manpower requirements, reducing the "footprint" of in-theater logistics support for deployed units, and--most importantly--improving the timeliness and quality of logistics support to operating unit customers.

IMPROVED LOGISTICS INFORMATION SYSTEMS

These improvements are integral to improving customer support. The ISAG created the vehicle to control costs and improve technology with greater customer involvement in the system development process. In FY96, the DoD made a decision to begin transitioning all business systems toward the new DoD Defense Information Infrastructure/Common Operating Environment (DII/COE) standard called Global Combat Support System (GCSS). This approach leverages recent technological improvements to provide real-time logistics information that is transparent to the end users at all levels. Air Force depot maintenance activities are actively engaged in seeking both a new accounting system and a new production control system consistent with this new architecture. The SMAG is also transitioning toward an FY00 objective of active GCSS compliance.

COST VISIBILITY AND ACCOUNTABILITY

These areas have been significantly improved for all business areas through designation of Major Command and Air Logistics Center Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), and Chief Operating Officers (COOs); initiatives to improve and modernize financial systems; and joint actions with the Defense Finance and Accounting Service (DFAS) to improve the quality of accounting support provided to the Air Force.

The most significant initiative to enhance accountability and management effectiveness within the Air Force Working Capital Funds (AFWCF) is **"performance contracts"**. At the direction of the Chief of Staff of the Air Force (CSAF), contracts have been established between each of the Air Logistics Center commanders and the Commander of the Air Force Materiel Command (AFMC), as well as between the AFMC Commander and the CSAF. Each contract specifies a set of required performance targets which AFWCF managers undertake to meet or exceed. In addition, a number of management indicators provide further information on management

Overview

effectiveness and business volume. AFWCF performance measures reflected herein are key indicators from these performance contracts.

COMPETITION

Competition of workloads (other than those that must remain organic to ensure the ability to support mobilization and comply with the outsourcing restriction of Title 10, United States Code) will provide the Air Force with the best value. In FY96, AFMC closed the Air Force Guidance and Metrology Center (AGMC) at Newark, Ohio and privatized in place the majority of the Center's workload through contracts with the Boeing. In FY97, the Warner Robins ALC won a major public-private workload competition for C-5 depot maintenance. Other actions to downsize were: (a) continued preparations to close and realign two principal Air Logistics Centers at Sacramento, California and San Antonio, Texas and (b) a continued drawdown of depot maintenance manpower, with a decrease from approximately 28,000 positions in FY96 to approximately 27,000 in FY97.

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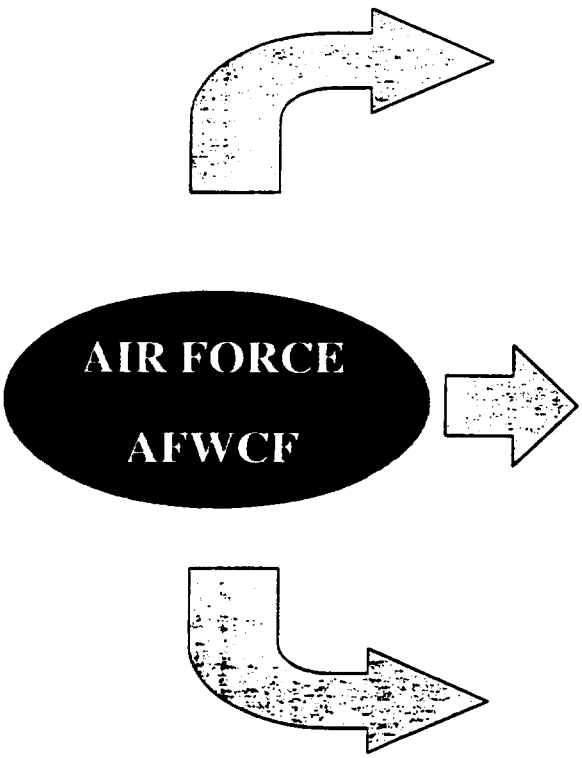
AIR FORCE WORKING CAPITAL FUND

The **Air Force Working Capital Fund** (AFWCF) consists of activity groups that were previously managed using industrial or stock funds, as well as several additional Defense Agency activities that also lend themselves to a business management mechanism. The AFWCF encompasses **three activity groups**:



ACTIVITY GROUPS

Supply Management

Established to finance inventories of supplies. Provides an extensive array of goods to a wide range of Air Force, other DoD, and non-DoD customers. Acquires inventories and repair of those inventories with funds received from prior sales to customers. Pays operating costs from the revenue of sales.

Depot Maintenance

Established to provide economical and responsive repair, overhaul, and modification of aircraft, missiles, other major end items, and their associated components. Provides a wide range of specialized services to DoD, as well as to other U.S. and foreign agencies. Work is generated by the acceptance of customer orders.

Information Services

Established to provide for the maintenance and development of automated information systems for specific Air Force customers. The Central Design Activities (CDAs) develop and implement new application programs, maintain and modify existing programs, provide training and documentation in support of the applications, and customize off-the-shelf software based on customers' specific needs.

(Note: The U.S. Transportation Command (USTRANSCOM) transfers from the Defense-wide working capital fund to the Air Force working capital fund in FY98. The USTRANSCOM transfer will not affect the existing command and control structure for its activities.)

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POLICY AND PROCEDURES

Operations of the activity groups are based on policies and procedures that continue in effect from the stock and industrial funds, as well as on important changes instituted in conjunction with implementation of the AFWCF:

Funding Authority	• Activity groups continue to receive their annual obligation authority in a document from the USD(C), through the Assistant Secretary of Air Force (Financial Management & Comptroller) • Unit cost targets have been established to provide standards for managing cost per unit of output
Rates	• Rates continue to be established to recoup full costs and adjust for prior year gains or losses. Rates are stabilized (do not change) during the year of execution. New financial policy in FY 98 will allow quarterly depot maintenance rate changes to incentivize depot managers to rectify cost increases within each business area • The scope of costs paid by AFWCF activities (and passed to customers in rates and prices) has been refined to more accurately represent the full costs of goods and services provided to customers
Capital Budgeting	• Activity group budgets continue to be segregated into operating and capital programs • The capital asset threshold has been increased to $100,000. Assets of lesser value acquired prior to the threshold change continue to be managed as capital assets. The thresholds for minor construction projects have been increased to at least $100,000 and no more than $500,000
Depreciation/ Amortization	• Consumption of capital assets continues to be recognized by including depreciation or amortization costs in the prices charged to customers • Depreciation schedules have been standardized across the DoD
Accrual Basis of Accounting	• The accrual basis of accounting continues to be used for recording revenue and expenses
Cash	• The Department continues to have an Anti-Deficiency Act limitation on fund cost authority, capital, and cash • The Air Force is working closely with the Defense Finance and Accounting Service (DFAS) to improve the timeliness and accuracy of cash accounting data and to develop improved cash forecasting tools

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SUPPLY MANAGEMENT (AIR FORCE)

The Air Force **Supply Management Activity Group** (SMAG) is a businesslike activity composed of all the resources and financial operations of the former Air Force stock fund, with the exception of the Commissary Division (now a part of the Defense Commissary Agency). The mission of SMAG is to provide policy, guidance, and resources to fulfill the United States Air Force spare parts needs in war and peace. There are eight divisions in the SMAG: Reparable Support Division (RSD), Systems Support Division (SSD), Cost of Operations Division (COD), General Support Division (GSD), Fuels Division, Medical/Dental Division, the Academy Cadet Store Division, and the Troop Support Division. Within these divisions, AF SMAG manages approximately 2 million items, including weapons system spare parts, fuels, medical-dental supplies and equipment, food items for troop support, and items used for non-weapons system applications. Material is procured from vendors and held in inventory for sale to authorized customers. The Cost of Operations Division is the only non-inventory, non-revenue generating division. It includes the inventory control points, which manage and purchase designated national stock numbered items for all Department of Defense.

MATERIEL SUPPORT DIVISION

In response to USD(C) direction to move from an aggregate surcharge to a more customer-specific surcharge, the Air Force decided to consolidation three of its divisions. The consolidation included the RSD, SSD, and COD into a single division called the Materiel Support Division (MSD). Consolidation of the Stock Fund Wholesale Divisions of the Air Force Supply Management Activity Group was a sound and logical streamlining initiative due to the reductions in COD; because COD is the division that supports the overhead of the SSD and the RSD, it is included in the consolidated process. The completion of the Consumable Item Transfer (CIT) of SSD items to Defense Logistics Agency (DLA) planned for FY99 further supports the consolidation into one system. The consolidation was implemented 1 Oct 97.

Business practice improvements with the implementation of MSD include: the creation of one budget for the division; creation of one set of financial statements; establishment of a single requirements system; creation of a multiple pricing mechanism; establishment of one budget code/accounting appropriation; development of a single obligation authority document; systems interface with other billing/budgeting systems at division/customer level; and an assurance that credit policies are consistent with billing policies.

MSD also drove changes to surcharge methodology. Formerly, the aggregate surcharge was applied uniformly to the Air Logistics Centers (ALCs) with a "peanut butter spread" concept for cost recovery. Under MSD, the concept of "variable" cost recovery is institutionalized. This

Overview

concept takes the cost to a lower level with the Material Cost Recovery (MCR), that portion of each exchange price sale that will pay for condemnations, computed at the National Stock Number (NSN) level. Benefits from the new approach for costing and pricing methodology will be: greater visibility of how costs are embedded in the various prices; the ability to correlate price and cost to perform effective price/cost analyses; an in-depth visibility as to how costs are related to operations; and the establishment of a direct relationship between sales and credit, which will be based on actual sales price and cost recovery information in the Trial Balance.

For *consumables*, MSD has established three costs and one price. The cost recovery definition is based on the concept of Latest Acquisition Cost (LAC), the price paid for an item when procured from a supplier; the Direct Allocable Cost Recovery (DACR) at LAC, which are those expenses applied to costs controlled by each Inventory Control Point (ICP); and the Business Overhead Cost Recovery (BOCR) at LAC, which are directed expenses applied to costs not controlled by the ICP and are prorated based on sales history and projections. Both the DACR and the BOCR are computed to the Inventory Control Point (ICP) level.

For *reparables*, MSD has established eight costs and four prices. The cost recovery is based both on acquisition cost - at LAC and Repair Cost - Latest Repair Cost (LRC) dependent on type of customer. Reparables have cost recovery elements of DACR at LAC and LRC; BOCR at LAC and LRC; Material Cost Recovery (MCR); and carcass cost. MCR is a portion of each sale at exchange price, which will pay for condemnation replacement. These combinations of costs form the basis for the four prices for reparables: standard, exchange, mark-up, and unserviceable asset.

The overall effect of the costs included in MSD was transparent. MSD raised prices for some items and lowered prices for other items, to achieve a net zero affect.

GENERAL SUPPORT DIVISION (GSD)

Within the SMAG, the General Support Division (GSD) in FY97 achieved the approved unit cost ratio of 1.00. However, sales continue to decline due to the less than expected customer funding and the increased usage of the International Merchant Purchase Authorization Card (IMPAC). Many bases are closing their Base Service Stores. Total expenses are in step with revenue when looking at the statement of operations in the AR(M) 1307 Report. The operating results for FY97 were slightly negative. Beginning in FY98, the surcharge will be applied to the total sales base. In the past, GSD only collected surcharge on local purchase sales.

LEAN LOGISTICS

Lean Logistics buy reductions have been made to FY97 ($336M), FY98 ($289M), and projected for FY99 ($323M). At the end of FY99, lean pipeline times will be the norm throughout Air Force Materiel Command (AFMC). The pipelines that are being reduced are Order and Ship Time, Reparable Intransit Time, and Shop Flow Time. In addition, Base Repair Time and Base Processing Time are being reduced by SMAG customers and are contributing to leaner pipelines.

ACQUISITION LEAD TIME

A related effort centers on reducing acquisition lead times. AQLT is defined as the combination of administrative lead-time (ALT) and production lead-time (PLT). Citing General Accounting Office findings, the Office of the Secretary of Defense directed the AFMC to reduce acquisition lead-times (AQLT) by 25 percent. A recent decision from the Quadrennial Defense Review states that all Services must reduce lead-time by an additional 25 percent by March 2003. From a baseline established in March 1994 of 834 days, AQLT was reduced to 660 days in FY 97, just short of the 625-day goal. A plan has been established to reduce AQLT 5% per year in order to reach the goal of a 417-day AQLT by FY 03.

SMAG PERFORMANCE MEASURES

For the last two years, the Air Force has made a concerted effort to institutionalize the use of performance metrics and performance based management techniques in this business area in order to meet the requirements of the Government Performance and Results Act (GPRA). The Air Force has a strong foundation for a comprehensive performance based management system in place. At the corporate level, the Air Force is developing budgets and allocating resources to meet specified performance targets; implementing performance contracts to improve visibility and accountability at all levels of management; and is tracking results. The metrics portrayed in this report are a result of senior leadership's efforts to date.

A number of new efforts are underway to improve the Air Force SMAG performance management system. The Air Force is participating with the USD(L) staff in the development of a DoD Corporate Logistics Plan, which will define some common performance objectives and metrics for all the Services to incorporate into the DoD's overall GPRA implementation. The Air Force is developing a new supply pipeline measurement and tracking tool which will provide management unprecedented visibility into daily supply operations and ultimately better metrics. This tool is expected to be operational in FY 99. AFMC is developing a Supply Strategic Business Plan to translate the overall DoD and Air Force planning into definable, quantifiable business objectives. This AFMC business plan would be a major step forward in the management of this business. In addition, in FY 98 AFMC has begun the process of establishing targets, allocating targets, and driving measurements and accountability down to the individual program managers within the Air Logistics Centers. This is the next major step in linking GPRA from corporate decision making to the lowest operational level. As a consequence of these actions, the Air Force expects to evolve its basic performance management system to a much more robust implementation.

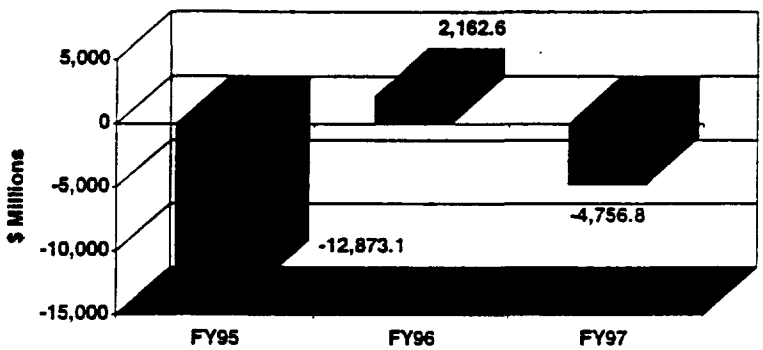
The following SMAG activity areas were measured for FY97. Other possible performance measures are currently being reviewed for implementation.

Overview

FINANCIAL EFFECTIVENESS MEASURES

The SMAG *Financial Effectiveness Measures* are: (a) ***Net Operating Results***, which compares revenue to associated expenses, and (b) ***Unit Cost***, which compares obligations to gross sales.

NET OPERATING RESULTS

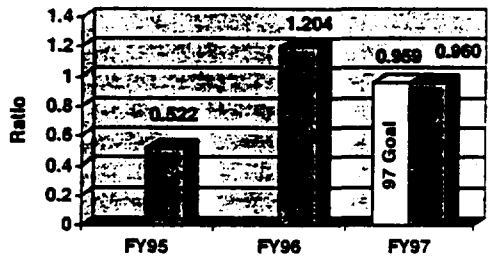


	FY95	FY96	FY97
NOR	-12,873.1	2,162.6	-4,756.8
Cost	26,937.4	10,626.1	16,725.5
Revenue	14,064.3	12,788.7	11,986.7

Net Operating Results (NOR) is the difference between annual revenue and associated expenses. In business terms, NOR represents the profit or loss from operations--therefore, a principal measure of performance. The objective for each Supply Management budget is to break even. This is accomplished by setting customer prices to offset the net prior-year profit or loss during the budget year. The AR(M) 1307 Accounting Report treats disposals as a loss, and does not discount them to salvage value. Approximately $4B of assets were disposed of in FY 97, and represent a majority of the AR(M) 1307 computed NOR loss. RSD prior period adjustments, approximately $665M for Foreign Military Sales (FMS); and the methods used to process shipments to contractors, which overstate the Cost of Goods Sold, also contributed to the FY97 negative NOR. The figures shown above are from the AR(M) 1307 *Accounting* Report; *budgetary* computations of the NOR exclude non-recoverable costs and will, therefore, reflect a different NOR.

Overview

UNIT COST



	FY95	FY96	FY97
Unit Cost	.974	1.02	.96
Obs + Returns	13,491.4	12,955.6	11,320.3
Gross Sales	13,849.3	12,642.2	11,781.8

Unit Cost represents the ratio of obligations (plus credit returns and depreciation expense) to gross sales. It is the primary means of cost control for supply management. Based on a theoretic goal of 1:1, unit cost represents the ratio of costs to sales. For FY97, the unit cost goal was established at $0.959. By the end of the fiscal year, the actual unit cost was $.96.

There continues to be major shortcomings within the accounting systems. Efforts underway to improve the Air Force's ability to manage SMAG budget formulation and cost visibility include: installation of the Automated Budget Analysis/Centralized User System (ABACUS) at ALCs and MAJCOMs; enhanced Keystone system to increase customer visibility of financial management data; and improved cash forecasting and tracking systems. A team comprised of SAF/FMB, AF/IL, DFAS, AFMC/FM/LG, and the Air Force Audit Agency was established to research the following areas concerning depot level reparables (DLRs):

- Review specific accounting transactions and process changes that accurately capture the DLR business process
- Investigate other accounting "data mining" options
- Review and eliminate all transaction disconnects
- Examine commercial inventory accounting procedures for ideas and make necessary proposals for revising DLR accounting procedures

Some headway was made in the reconciliation of the AR(M)1307 Report--in revising GLA crosswalks, which have aligned the Air Force with the DoD Standard Chart of Accounts. Work will continue on improving inventory valuation and the Cost of Goods Sold methodology as it pertains to the AR(M) 1307 Report. A long-standing problem with accounting for intransit SSD inventory was resolved this year, with the implementation of the MSD.

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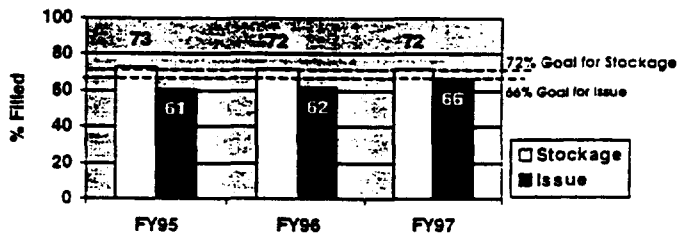
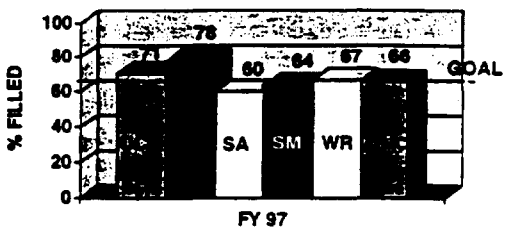
PERFORMANCE EFFECTIVENESS MEASURES

The SMAG *Performance Effectiveness Measures* are: (a) ***Stockage Effectiveness***, (b) ***Issue Effectiveness***, (c) ***Mission Capable Rate***, (d) ***Total Not Mission Capable Supply***, (e) ***Inventory Turn Rates***, and (f) ***Secondary Item Inventory***.

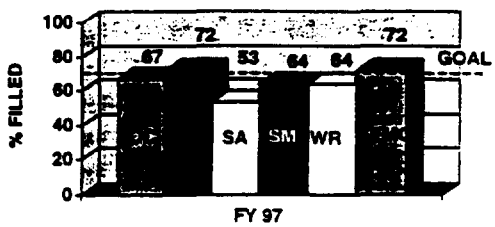
AIR FORCE SMAG
STOCKAGE & ISSUE EFFECTIVENESS



ISSUE EFFECTIVENESS -
BY AIR LOGISTICS CENTER



STOCKAGE EFFECTIVENESS -
BY AIR LOGISTICS CENTER



OC = Oklahoma City; OO = Ogden; SA = San Antonio; SM = Sacramento; WR = Warner-Robins; AFMC = Air Force Materiel Command

Stockage Effectiveness measures how well anticipated customer demands are satisfied through immediate off-the-shelf issues. ***Issue Effectiveness*** is the percentage of time reparable items that are issued "upon request". While each of these measures serves as a gauge of customer support, the ***Stockage Effectiveness*** metric is generally accepted as a better indicator of support performance because this measure deals with items that have an established demand level at base supply. The goal for ***Stockage Effectiveness*** is 72 percent, while the goal for ***Issue Effectiveness*** is 66 percent. These goals represent judgments about the approximate levels needed to support readiness requirements. Both goals were met in FY 97; ***Stockage Effectiveness*** was 72 percent, while ***Issue Effectiveness*** was 66 percent.

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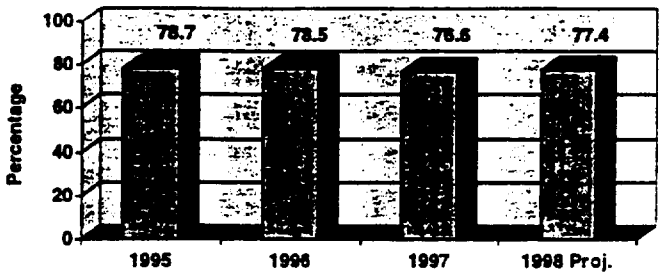
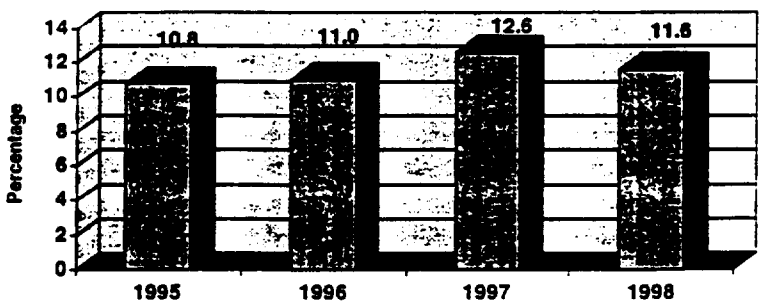
MISSION CAPABLE RATE



The ***Mission Capable*** (MC) ***Rate*** is the percentage of key Air Force weapons systems capable of doing all their assigned missions. Given the unique profile of each weapon system comprising the AF aggregate MC rate, the rate is not measured against a defined Air Force goal. Instead, the MC rate is viewed from a readiness context in terms of the availability of aircraft to meet peacetime training needs and war mobilization requirements. Overall, MC rates have declined since peak rates of FY 91. While the MC rate is lower than desired, current rates are sufficient to meet minimum programmed operational requirements. MC rates are expected to begin recovering in FY 98, based on improved FY 98 (95%) and FY 99 (100%) spare parts funding and implementation of Engine Life Management Planning.

TOTAL NOT MISSION CAPABLE SUPPLY



The ***Total Not Mission Capable Supply*** (TNMCS) rate is the percentage of key Air Force weapon systems which cannot do any assigned mission because of a supply related cause. Again, due to the unique profile of each weapon system comprising the Air Force aggregate TNMCS rate, it is not measured against an Air Force goal. Instead, the TNMCS rate is viewed from a trend context. Although TNMCS rates are rising, overall spares inventory is sufficient to support readiness and war mobilization requirements--but it is beginning to reflect strain. In the Status of Resources and Training System (SORTS), the number of combat coded aviation units reporting C3 or C4 in the Equipment and Supplies on Hand category increased 2.5% over the last year due to shortages in readiness spares packages--spare engines and support equipment.

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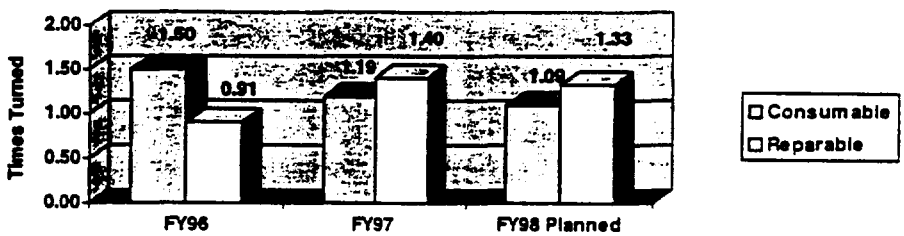
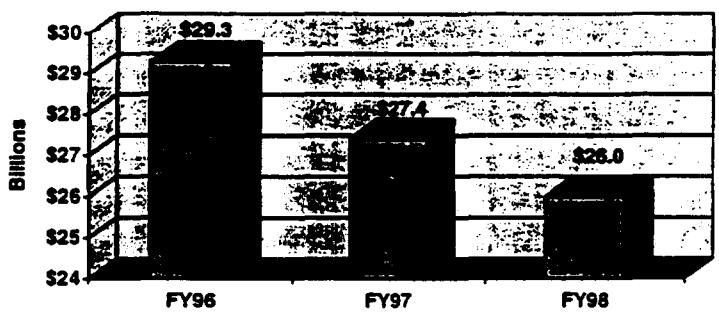
INVENTORY TURN RATES



Inventory Turn Rates represent the number of times inventory is sold and replaced during the year. While the manufacturing industry standard for turn rate is 2.0, our FY97 and FY98 turn rate remains below the industry standard because it is part of the Air Force mission to hold inventory for contingencies. The Air Force is investigating process improvement for turn rate based in implementation of several initiatives designed to reduce the amount of inventory stored on the shelf. These initiatives include: expanded use of direct vendor delivery, cost effective use of express transportation, and the anticipated benefits derived from reductions driven by acquisition lead times.

SECONDARY ITEM INVENTORY



(NOTE: The FY 96 secondary inventory total has been updated from $31.4B reported in the FY96 CFO statement, to $29.3B. The figure reported in FY 96 CFO statement was an estimate based on the FY 98/99 Budget Estimate Submission (BES); actual figures were not available at the time of publication. Both the FY 96 and FY 97 figures in this report are actual inventory totals: the FY 98 figure is a projection based on the FY 98 PB.)

Secondary Item Inventory includes aircraft, missile, and equipment components and parts (reparable); general and minor materiel and supplies (consumable); and other consumables, such as Medical/Dental and Fuels. The FY97 DoD inventory goal was $29.1B in then-year dollars.

Overview

The FY98 goal is $28.4B in then-year dollars. The goals are based on the theory that inventory should decrease at the same rate as the flying hour program. Flying hours decreased significantly from FY92 through FY96. The Air Force also significantly decreased inventory to support the flying hours in these years. However, the flying hour program for FY 97-03 remains relatively flat; therefore, the Air Force anticipates the amount of inventory it requires to support those flying hours will not decrease as dramatically as in previous years. The Air Force holds inventory over and above the amount necessary to support flying hours; it is held for contingencies and because it is more economical to retain some inventory than to dispose of it. The Air Force has reevaluated its policies for determining how much inventory to hold for these purposes. It concluded that it could safely reduce the amount of inventory held in these two categories (more economical to retain than to dispose and for contingencies) in order to meet the DoD inventory goals. The Air Force believes it will meet the FY98 goals.

Overview

DEPOT MAINTENANCE (AIR FORCE)

The Air Force **Depot Maintenance Activity Group (DMAG)** provides over $4 billion per year of repair and other services to customers throughout the Air Force, as well as to other Services, US government agencies, and foreign governments. The DMAG repairs a wide range of customer assets including aircraft, missiles, aircraft engines and engine modules, landing gear, electronics, avionics, composites, and computer hardware and software. When supply sources are no longer available, the depots are capable of remanufacturing parts that meet or exceed the original specifications. In FY97, the DMAG performed programmed depot maintenance (major overhauls) on approximately 500 aircraft, overhauled approximately 150 engines, and repaired over 300,000 depot-reparable spare parts. In addition, maintenance for more than 700 engines, formerly performed at the intermediate level, has been moved to the depot under Lean Logistics tenants.

FY98 GOALS AND OBJECTIVES

The goal of DMAG is to provide customers the items they need, when they need them, at the best possible price, with quality workmanship. Together, the organic and contract elements of the DMAG provide the solid industrial base needed to effectively maintain combat and support forces. Management of the DMAG involves the development of realistic budget estimates that include productivity improvements, performance measures, and continuous review and analysis of depot maintenance operations to ensure timely production of quality products at the lowest possible cost.

SOURCES OF MAINTENANCE

The depot maintenance environment is rapidly changing in response to a decreasing force structure and technology advances. Weapon systems embodying new materials and technologies require new maintenance processes, while improving reliability and reducing the frequency of maintenance for many items have become a priority. The net result is a requirement for greater flexibility in addressing both wartime and peacetime workload changes. This flexibility is achieved by employing both organic and contractor repair sources.

DMAG Organic Services are provided by five principal Air Logistics Centers (ALCs) and the Aerospace Maintenance and Regeneration Center at Davis-Monthan Air Force Base (AFB), Arizona. As a result of action under the Base Realignment and Closure (BRAC) process, a seventh facility, the Aerospace Guidance and Metrology Center at Newark AFB, Ohio closed at the end of FY96, with the majority of its work transitioning to the Boeing Corporation. In addition, BRAC 95 identified the ALCs at Sacramento, California (SM-ALC) and San Antonio.

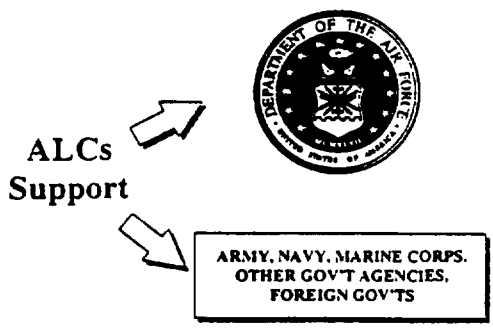
Overview

Texas (SA-ALC) for closure/realignment by 2001. Workload begins transitioning from these centers in FY98.

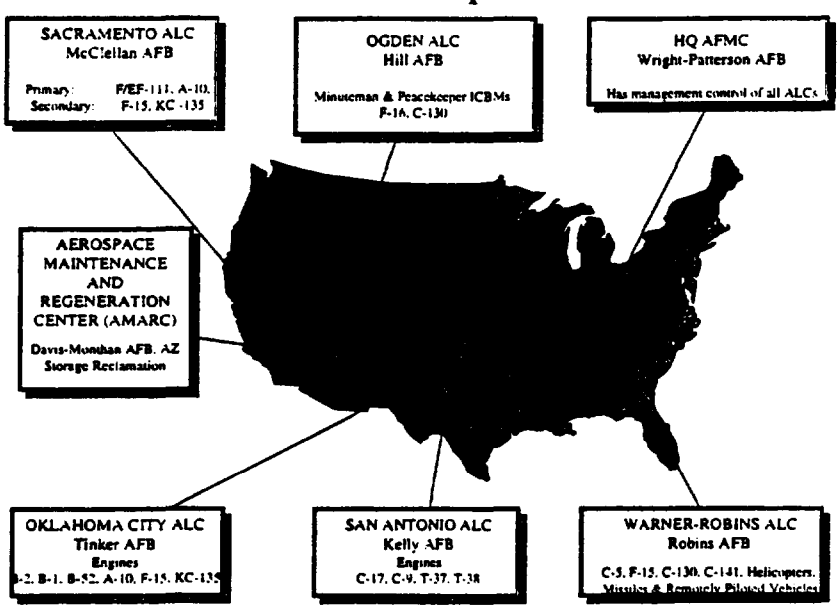
DMAG Contract Services include depot maintenance performed by approximately 650 commercial firms worldwide. Contract sources often have advanced technologies or specialized capabilities and facilities not available at organic depots. Contractors are also used when they are more economical than organic maintenance.

Interservice Support (which, for financial purposes, is managed as a part of the DMAG contract program) is used for assets common to two or more Services or when common repair technologies apply.

DMAG ORGANIC SERVICES



Locations & Specialties



Overview

DEPOT WORKLOAD STRATEGY

As a result of BRAC 95 decisions two organic depots, SA-ALC and SM-ALC are currently planned for closure/realignment. Non-core workload that does not breach Title 10, United States Code 50/50 legislation (essentially, not more than 50% of the dollar value of the depot maintenance workload can be performed by non-DoD personnel) is being competed under public/private competition and remaining workload is being transitioned and consolidated at the remaining depots. The initial plan to support these efforts was developed in June 1995 with site selection determined by the Technology Repair Center (TRC) Study, AFMC 21, site surveys, and the Command Senior Business Planners (SBPs). This overall plan has been refined several times to achieve better balancing. Three major competition packages are planned for award: the SA-ALC C-5 in FY97, the SM-ALC workload composite, and the SA-ALC propulsion workloads in FY98. The C-5 competition is completed with WR-ALC winning the competition with savings of approximately $190M over seven years.

The SM-ALC workload composite package is made up of a variety of workloads: instruments/electronics, electrical accessories, hydraulics, aircraft (A-10 and KC-135), and manufacturing to support these workloads. SA-ALC propulsion workloads to be completed include the TF-39, T-56, and F-100 (non-core). If a public depot wins the SM-ALC consolidated package, the SA-ALC propulsion package will then be expanded to include more non-core engine workload.

Major assumptions used during the development of the move strategy were: current competitions are awarded to the private sector, all moves must be completed by 13 Jul 2001, 50/50 is a limitation to the strategy, the gaining ALCs could accept workload in timeframes identified, and the transition will maintain a level of employment at two sites that was projected at the time of the BRAC 95 announcement.

The ALCs will be working detailed workload transition plans during FY98. These plans will provide the detail on manpower moves, workload values, capacity requirements, and funding.

DOWNSIZING AND COMPETITION

Defense downsizing and competition have continued to impact the Air Force DMAG through reductions in force (RIFs), "early outs" of experienced personnel, and BRAC-driven facility closures and realignments. As is the case with any downsizing effort, productivity has been affected. Projected closures caused turbulence as qualified personnel departed for alternate employment and hiring of interim replacements became more difficult. RIFs and early outs resulted in wholesale personnel reassignments and retraining requirements. The next several years will witness even greater changes as the closure of two ALCs is implemented. For the managers of DMAG operations, downsizing and competition will continue to present major challenges for the foreseeable future.

Overview

DMAG PERFORMANCE MEASURES

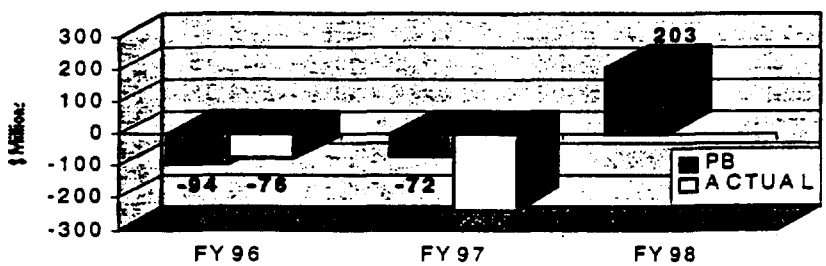
Performance effectiveness of the DMAG is represented by seven metrics. Four are **Financial Effectiveness Measures** and three are **Performance Effectiveness Measures.**

FINANCIAL EFFECTIVENESS MEASURES

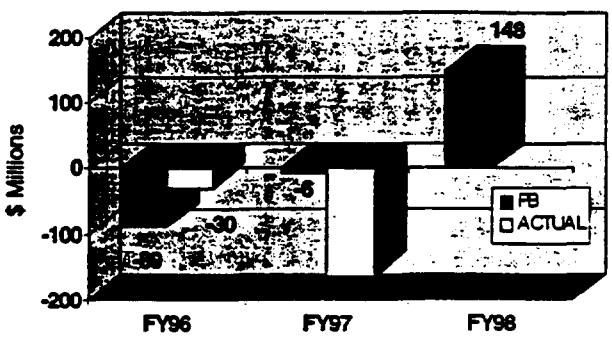
The *Financial Effectiveness Measures* are: (a) ***Net Operating Results***, a measure of actual versus planned profitability of total, organic, and contract operations; (b) ***Revenue Earned*** compared to that projected; (c) the ***Cost of Goods Sold*** associated with revenue earned; and (d) ***Organic Expenses Per Direct Product Standard Hour*** (DPSH), which measures actual versus planned cost effectiveness.

Revenue and costs are booked based on completed work. Net Operating Results is revenue less cost and includes other non-operating adjustments, such as prior period corrections. Targets for financial effectiveness measures are based on the FY 98 President's Budget (PB).

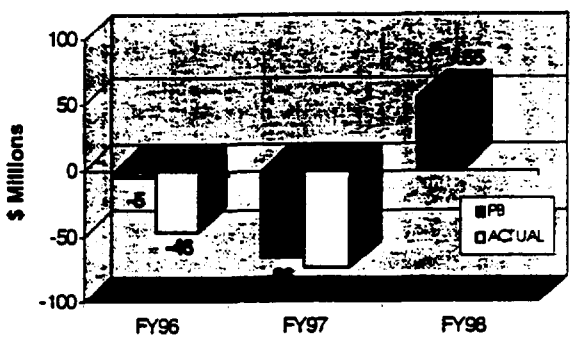
NET OPERATING RESULTS – TOTAL



NET OPERATING RESULTS - ORGANIC



NET OPERATING RESULTS - CONTRACT

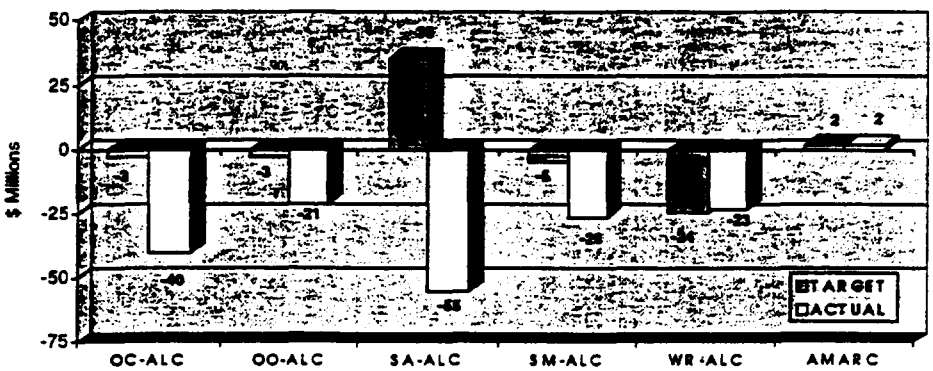


Net Operating Results (NOR) is the difference between revenue and associated costs, in business terms, amounts to the profit or loss from annual operations. Accordingly, the variance of actual

Overview

from target NOR is one of the most important indicators of the effectiveness of business operations. For FY97, ***Organic NOR*** losses were predominantly driven by the large losses at the two engine ALCs, as well as equipment write-off costs and prior year losses. ***Contract NOR*** loss was driven by a $32M Request for Equitable Adjustment (REA) for work performed by a contractor (PEMCO) and a $46M write-off of non-credit material intransit from the previous PEMCO C-135 Programmed Depot Maintenance (PDM) contract.

ORGANIC NET OPERATING RESULTS – BY CENTER

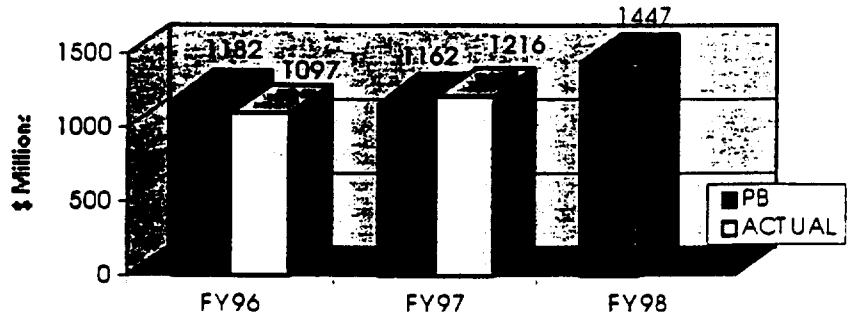


Organic losses were predominantly driven by the large losses at the two engine ALCs (OC-ALC and SA-ALC), primarily due to parts shortages and lower than planned production. In addition, losses resulted from lower than planned productivity, particularly at the two closing centers (SA-ALC and SM-ALC). Material Costs were higher than planned due to higher than planned material prices and higher usage of material than planned.

The Air Force will continue to modernize depot maintenance systems no longer supported or upgraded by the Joint Logistics Systems Center. Funds were made available to initiate necessary functional and technical changes that will ensure Air Force systems are Chief Financial Officer (CFO) Act compliant. However, all existing depot maintenance accounting systems are under review for process improvement. Commercial-off-the-shelf (COTS) software is being evaluated as a possible alternative to redesigning current legacy systems. The need for improved/expanded financial capability has also led the Air Force to the decision to implement the Defense Industrial Financial Management System (DIFMS). This will improve the ability to track and control costs. It also supports the Defense Finance and Accounting Service's (DFAS) efforts to standardize depot maintenance budget/cost management systems throughout the Department of Defense.

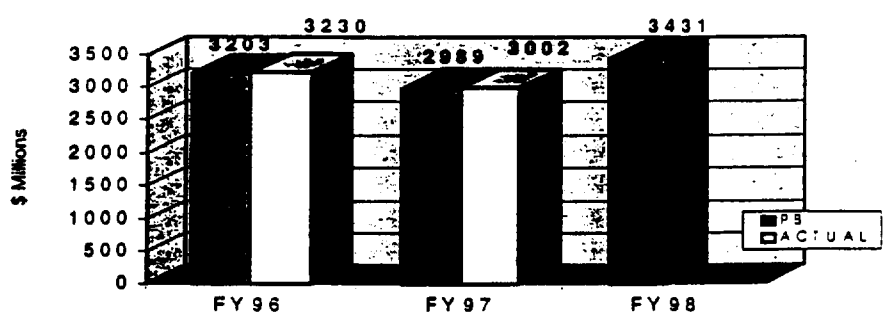
Overview

REVENUE EARNED – CONTRACT



Revenue Earned measures the income received from customers versus planned earnings identified in the President's Budget (PB). For FY97, the ***Contract Revenue*** variance was driven by exchangeables being over target due to increased requirements and funding. Software revenue was higher than planned due to the acceleration of B-1 and B-2 workload. Engine revenue was higher than planned due to an accelerated workload move from the organic activity to contract. Aircraft revenue was lower than planned due to the C-135 production being less than planned because of a lengthy strike at the contractor's plant (PEMCO).

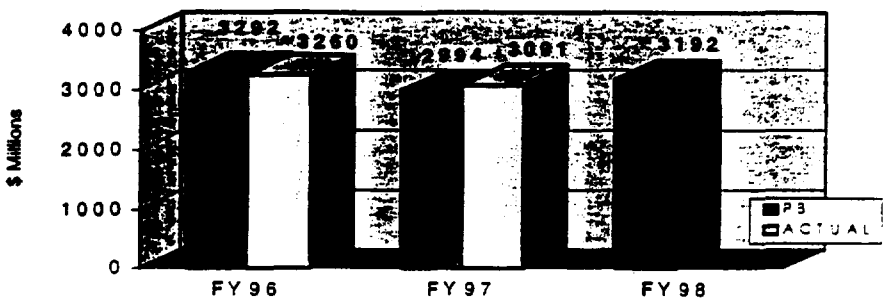
REVENUE EARNED - ORGANIC



The ***Organic Revenue*** variance was driven by engine revenue being under plan at both the engine centers. This was primarily due to critical material parts shortages, and lower than planned production as a result of workload moving from organic to contract. Exchangeable revenue was also under plan, driven by parts shortages associated with engine workload. Software revenue was under plan primarily due to workload not generating and the shortage of qualified software engineers. These negative variances were offset by a positive variance in the aircraft revenue. Aircraft revenue was higher than planned due to increased production on the B-52s and C-135s.

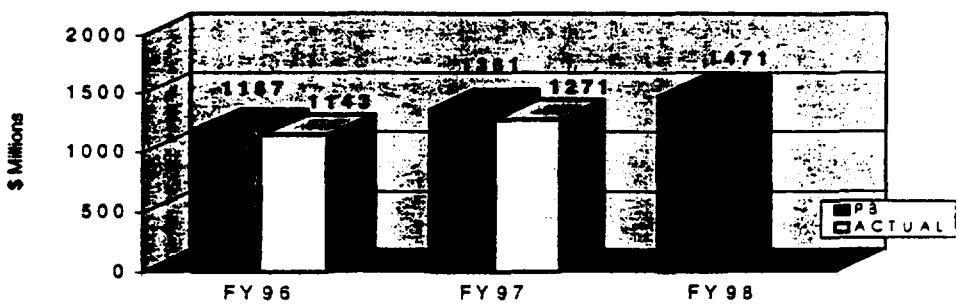
Overview

COST OF GOODS SOLD - ORGANIC



Cost of Goods Sold (COGS) measures the resources consumed in filling customers' orders versus those planned. *Organic Cost of Goods Sold* - was higher than planned due to increased labor costs, resulting from greater usage of overtime and decreased productivity, which led to higher than planned organic costs of goods sold. Material costs were higher than planned due to the workload mix changing to a more material intensive workload. Cost of goods sold also includes equipment write-offs, due to downsizing of $32M, and prior year losses of $25.1M.

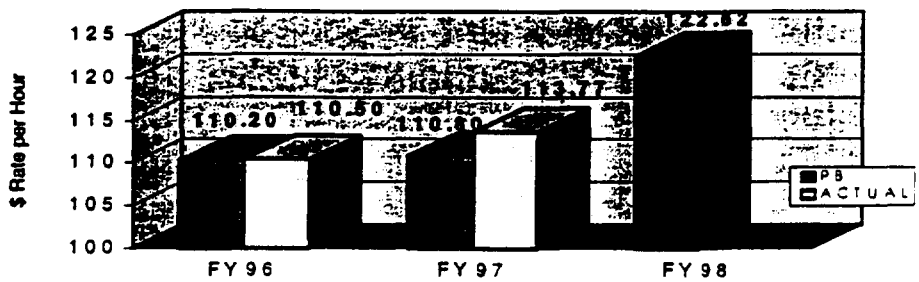
COST OF GOODS SOLD - CONTRACT



Contract Cost of Goods Sold was lower than the PB because privatization assumptions used in planning did not materialize.

Overview

ORGANIC EXPENSES PER DIRECT PRODUCT STANDARD HOUR ($/DPSH)

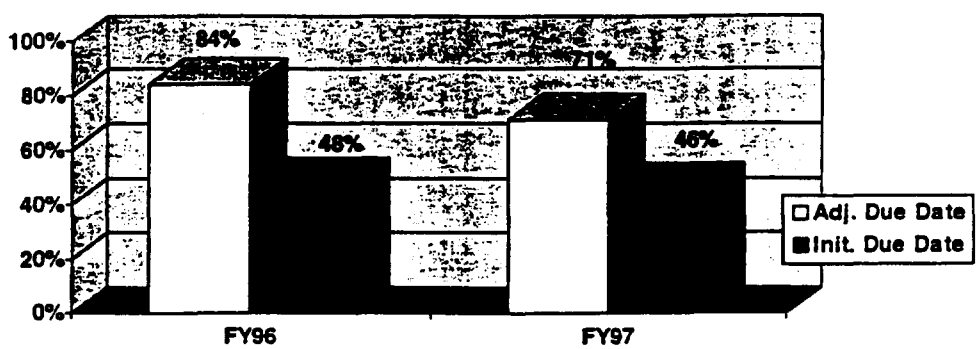


Organic Expenses per Direct Product Standard Hour (DPSH) measures cost per unit of output for organic depot maintenance. Since the depot maintenance activity group completes many thousands of dissimilar maintenance and manufacturing jobs, the most feasible output metric is "earned" direct product standard hours, (i.e., the total work completed as measured in the standard hours attributed to each job). Variances in cost per standard hour are a primary indicator of the effectiveness of cost control. For FY97, the rate variance was $2.90 per hour, or 2.6% higher than planned. The labor portion of the rate was higher than planned due to increased usage of overtime and decreased productivity. The material portion of the rate was higher than planned due to increased usage of material due to higher than expected failure rates on some engine workload. The "other" portion of the rate was lower than planned due to concentrated efforts of the Air Logistics Centers to keep down costs.

PERFORMANCE EFFECTIVENESS MEASURES

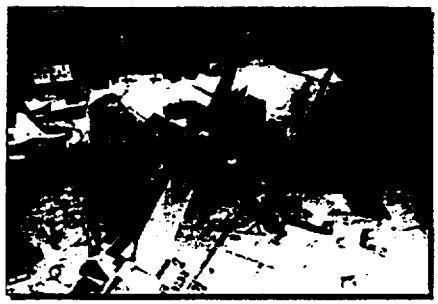
Performance Effectiveness Measures are (a) ***Aircraft Delivery Performance***, which portrays schedule effectiveness; (b) ***Organic Production Hours***, which depicts how well DMAG supported its planned production output; and (c) ***Quality Defect Rates*** which measures the quality of the completed work, as measured by the operating unit which possess the aircraft.

AIRCRAFT DELIVERY PERFORMANCE

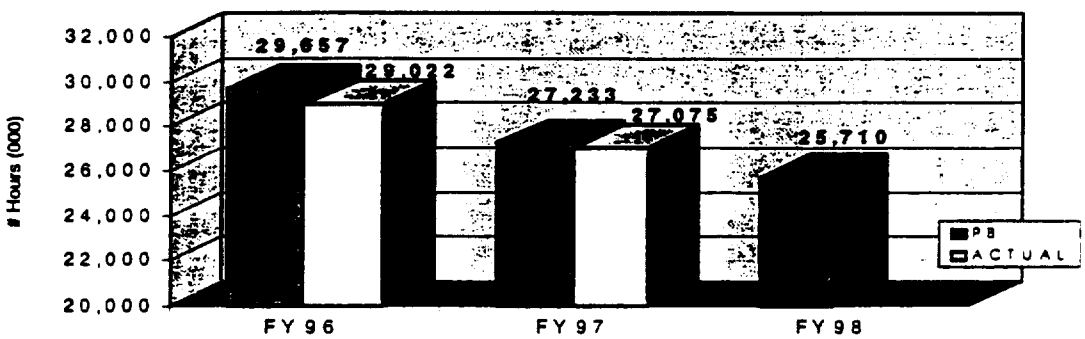


Overview

Aircraft Delivery Performance is an indicator of the ability of Air Force depots to complete aircraft overhauls (programmed depot maintenance) and return the aircraft to operating unit customers by an estimated delivery date. Two measures are used, an *Initial Due Date*, representing the estimate of work required before an aircraft arrives at the depot, and an *Adjusted Due Date*, a more refined estimate based on an actual on-site inspection of the aircraft. Successful performance is delivery on or before the established date. Since the adjusted due dates are based on much more information on specific maintenance tasks required, performance rates are typically much higher. Although the delivery performance has decreased somewhat, the actual flowday performance actually improved 31% during FY97. Flowdays are the number of days needed to complete work on an aircraft. Reduced flowdays result in MAJCOMs having less aircraft in the depot and more available for operational requirements.



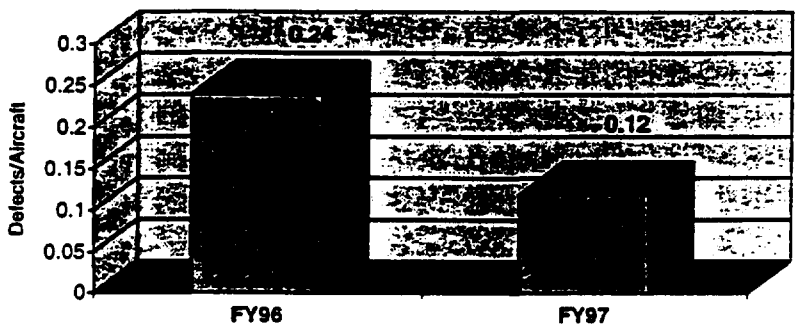
ORGANIC PRODUCTION HOURS



Organic Production Hours is an important metric of the productive output of organic depot maintenance. Essentially, this indicator measures output (in standard hours "earned") of completed work. Variations from the target result from changes in requirements (for example, an increase in customer orders) or, more importantly, from changes in direct labor productivity. For FY 95 to FY 97, the decrease of 15 percent in forecasted production hours is a clear reflection of the continuing drawdown of organic facilities and the transfer of workload to commercial contractors. FY 97 production was slightly lower than the PB; however, the PB projected privatization that did not occur. A more meaningful comparison is that actual production hours were 1.2 million hours less than initial ALC plans. Primary variances were found in engines and exchangeables due to parts shortages at both engine centers. Software production was under center plans primarily due to less workload and manpower than planned being on board.

Overview

QUALITY DEFECT RATE



Quality Defect Rate measures the quality of completed work. The quality of organically performed aircraft programmed depot maintenance is assessed by the trend in quality defects per aircraft delivered, as reported by the operating units that possess the aircraft. Measurable defects are those which are critical or major in nature and constitute failures in workmanship.

MAJOR DMAG INITIATIVES

- *COMPETITION*: Once minimum core capability has been established, the remaining non-core workloads will be accomplished to attain the best value to the customer and the public sector within 50/50 legislation. This will be accomplished in large part by the use of public/private competition. The remaining two major competition packages planned (SM-ALC composite package and SA-ALC Propulsion) are projected to produce a significant cost reduction or savings of 16%. This savings has been incorporated into the FY98 budget submission.

- *WORKLOAD CONSOLIDATIONS*: Core workloads from the closing depots will be transitioned to the remaining depots beginning in FY98. This will draw the AFMC infrastructure down from five to three depots. With these consolidations, General and Administrative (G&A) costs will be spread over larger workloads. Improved yields are projected which will equate to less manpower required to accomplish the workloads. A cost reduction of 10% beginning one year after workload consolidation has been projected and is reflected in the FY98 budget submission.

- *MATERIAL EXPENSE*: In an attempt to more closely align the FY99 amended BES with the FY98 President's Budget, HQ AFMC has constrained the ALC budgets to only those material costs that represent an increase in price growth (inflation) or correspond with an increase in production.

Overview

- *OTHER EXPENSES*: Other reductions to initial ALC budgets include $27M in FY98. The Air Force projected a $15M cost avoidance in real property maintenance due to the initial efforts in closing the two ALCs. A reduction in travel of $2M has also been included to more closely align costs with the inflation rate. $1M in cost avoidance was included due to reduced costs for shop realignment at the closing ALCs. The closing ALCs have delayed or canceled shop realignment efforts due to the pending closures. As workloads are consolidated to the remaining ALCs, equipment will be excessed and depreciation expenses will decrease. A $7M cost avoidance was included in the budget to account for this decrease in depreciation. Also, equipment maintenance costs have been reduced by $2M due to the closures. A $20M cost avoidance was projected for FY99. For the same reasons mentioned above, real property maintenance cost reductions of $9M, travel cost reductions of $10M, and equipment maintenance cost reductions of $1M have been included in the budget.

- *CAPACITY UTILIZATION*: Increased utilization is targeted for the remaining depots as a result of the implementation of the workload consolidation efforts. Excess capacity will be reduced due to the closure of SM-ALC and SA-ALC. Additional capacity reduction will be achieved based on more efficient production processes and more economical use of production resources. The goal is to have 80-85% utilization at the remaining depots.

- *FIRST STRIKES*: Motivated by an increasing need to see immediate improvement in the DMAG process, AFMC initiated the *"First Strike"* program. The program identifies tasks that are important to achieving a high quality depot maintenance program and that can be completed within a short period of time to gain quick results. Yet, accomplishment of these tasks must still have long-term economic benefits. The First Strikes include policy, resources, training, and metrics initiatives. The establishment of the current CEO as manager of DMAG concept was one of these efforts. Other initiatives call for the review of equipment depreciation and labor standard policies, clarification of the Reduction-In-Force (RIF)/early out process, proper application of manpower and manpower constraints, simple updates to automated data tools, training at all levels, and ensuring proper performance measures are in place. Policy and guidance have been issued in many of these areas and efforts will continue to complete all initiatives, as well as work new issues identified. Indications are that the attention given to the First Strikes is producing intended results.

- *LEAN LOGISTICS*: The tenets of lean logistics, converting the current logistics process from a "push" to a "pull" system, will continue to be implemented in the maintenance depots via the Depot Repair Enhancement Program (DREP) program. This program puts the ultimate authority for repair of an item into the hands of the maintainer. Under this concept, the maintainer exerts influence over functions including item management, financial management, and supply, to prioritize and expeditiously repair what is really needed. This fundamental redesign of the process will yield a demand-based environment that is both cost efficient and responsive to customer needs. The process has been streamlined and will also result in the turn-in of excess equipment and reduction of current capacity levels. In addition to these savings, the Aircraft Repair Enhancement Program (AREP) being implemented across several Programmed Depot Maintenance (PDM) lines has shown promise to substantially reduce future aircraft depot flow days. The goal is a significant (up to 50%) reduction in PDM flow time with equal or reduced cost.

Overview

INFORMATION SERVICES (AIR FORCE)

The Information Services Activity Group (ISAG) is a fairly new WCF activity that began cost-reimbursement operations in FY96. During the startup year, the funding for *Central Design Activity (CDA)* operations was centrally managed. Full operations, including direct billing of customers began in FY97 with the implementation of the Industrial Fund Accounting System (IFAS).

The Air Force operated two large CDAs. Through a combination of contract and organic services, the CDAs provide hardware and software support for the Air Force computer business areas. Specific services provided include acquisition, maintenance, modification, modernization, development, and consulting services supporting automated data systems. Further, the CDAs develop procedures for implementing Air Force logistics policy, provide maintenance and publication of documentation, and provide direct support to field users. The two CDAs are the Materiel Support Group (MSG) and the Standard Systems Group (SSG). MSG is located at Wright-Patterson AFB, Ohio and concentrates primarily on wholesale logistics and depot systems. SSG focuses primarily on base-level standard systems and is located at Gunter AFB-Maxwell Annex, Alabama.

The mission of the ISAG is to provide a financial and management vehicle to support Air Force software and hardware development. Through system Logistic Program Directives/Service Level Agreements (LPDs/SLAs), the customer is able to determine system requirements and provide the financial means to accomplish the work required. The customers and providers together develop the LPDs/SLAs, thus making the customer an integral part of the requirements process.

GOALS AND OBJECTIVES

The CDAs will provide mission support services to the Air Force in a multitude of functional areas (e.g., Supply, Maintenance, Transportation, Munitions, Logistics Plans, Contracting, and Military Justice). To do so, the following goals have been established:

- Provide a more effective means for controlling the costs of goods and services required to be produced or furnished by WCF activities, and a more effective and flexible means for financing, budgeting, and accounting for those costs.

- Provide managers of WCF activities the financial authority and flexibility required to procure and use manpower, materials, and other resources effectively.

- Facilitate budgets for, and reports of, the costs of end-products, underlining the cost consequences of choosing among alternatives.

Overview

Strategy Initiatives for FY98:

- To generate a Net Operating Result (NOR) equal to zero, whereby ISAG total revenue equals the ISAG total expenditures.
- To reduce the ISAG General and Administrative function by an amount consistent with established guidelines, directives, and sound business practices.

In FY98, The Logistics Information System Program Office (IL SPO) was established as a result of the Electronic Systems Center (ESC) reorganization. The IL SPO implements asset tracking and commander visibility for Air Force logistics systems in accordance with the Chief Financial Officers Act. The mission is to provide the right information at the right time and place to help AF/IL and AFMC/LG succeed, enabling agile combat support. The two key objectives are focus on the customer and enable integration among the different logistics information systems. The SPO modernizes and sustains base and depot-level information systems with the Supply, Maintenance, Munitions, Logistics Plans, and Transportation functional areas. Tradeoffs between legacy systems sustainment and the modernization of the legacy systems are identified to the logistics community. The IL SPO is the single manager for all logistics information systems under ESC.

ISAG PERFORMANCE MEASURES

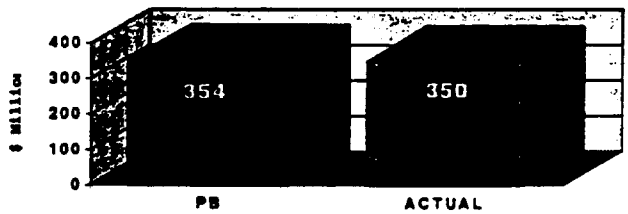
Performance effectiveness of the ISAG is represented by eleven metrics. Seven are **Financial Effectiveness Measures** and four are **Performance Effectiveness Measures**.

FINANCIAL EFFECTIVENESS MEASURES

In FY97, ISAG used seven *financial effectiveness measures*. These are: (a) ***Total Revenue***; (b) ***Total Cost of Goods Sold***; (c) ***Total Net Operating Results***; (d) ***Collections***; (e) ***Disbursements***; (f) ***Change in Cash***; and (g) ***Capital Obligations***. Since FY97 was the first year of full operations for ISAG, comparative data is not available.

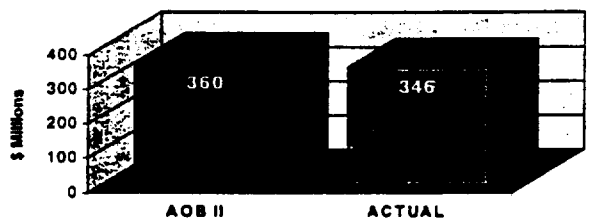
Overview

TOTAL REVENUE



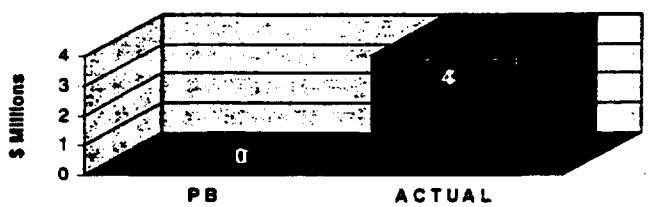
Total Revenue measures the income received from customers versus planned income. End of FY97 revenue was within 1 % of planned. Revenue is earned from two main methods, the sales of direct billable labor hours at the composite rate and the accrual and receipt of contract dollars as they pass-through the CDAs.

TOTAL COST OF GOODS SOLD



Total Cost of Goods Sold measures the resources consumed in filling customers' orders versus planned. These costs include labor, materials, supplies, depreciation, contracted engineering services, lease costs, purchased communications, equipment maintenance, base operating support, and other expenses. End of FY97 resulted in 3.8 % less than planned.

TOTAL NET OPERATING RESULTS

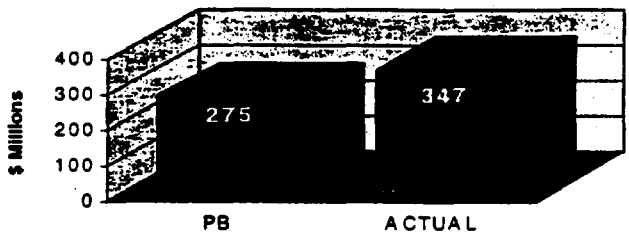


Total Net Operating Results measures the profit/loss versus planned. The $4M profit is result of Revenue from Firm Fixed Price billing that was not considered when the revenue plan was developed.

Overview

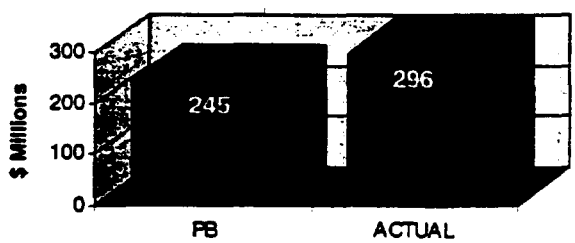
The Air Force is actively engaged in improving AFWCF accounting systems and ISAG will benefit from the ongoing improvements to the overall accounting systems. Upon entering the WCF, ISAG implemented the Industrial Fund Accounting System (IFAS) as its WCF accounting system. HQ DFAS is considering whether to redesign or replace IFAS. Should this occur, the Air Force will be an active participant with DFAS in changing IFAS to more closely meet our needs. Actions to improve ISAG specific systems, such as IFAS, will be taken as deficiencies are discovered.

COLLECTIONS



Collections measures the dollar value of planned collections versus actual collections. FY97 was $72M higher than planned because the plan was not adjusted for the effect of "billing to obligations" effective in May 1997. Also, the receipt of a new Annual Operating Budget (AOB) in September was not included in the plan at that late date.

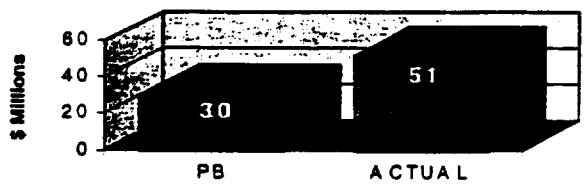
DISBURSEMENTS



Disbursements measures the planned versus actual disbursements. FY97 resulted in disbursements being $51M higher than planned. This is due to receipt of a new AOB in September and planned disbursements were not adjusted at that late date.

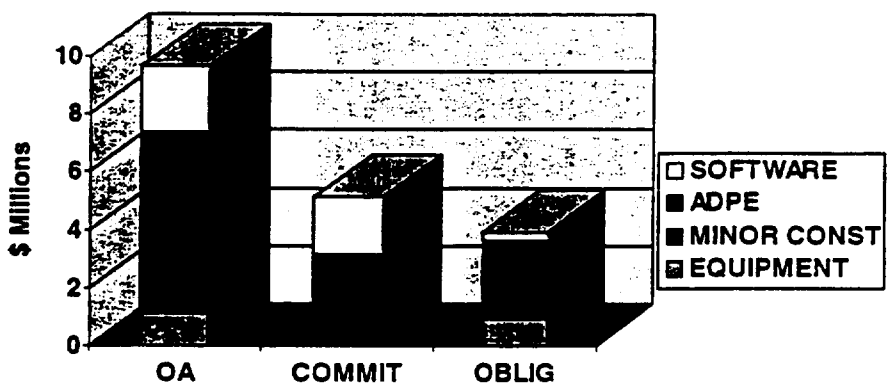
Overview

CHANGE IN CASH



Change in Cash measures the difference between collections (cash in) and disbursements (cash out). FY97 resulted in $51M change in cash.

CAPITAL OBLIGATIONS



	OA	COMMIT	OBLIG	%OBLIG
EQUIPMENT	1.100	0.082	0.939	85%
MINOR CONST	0.000	0.000	0.000	0%
ADPE	6.165	2.950	2.589	42%
SOFTWARE	2.300	2.000	0.319	14%
TOTAL	9.565	5.032	3.847	40%

Capital Obligations reflects the amount of capital obligation authority obligated and the balance. FY97 reflects only 40% of the capital authority obligated. This is due to coding errors and will be corrected for FY98 reporting.

Overview

ISAG will include four *management performance* measures in FY98. These tracking charts were developed during FY97. The indicators are: (a) ***Discrepancy Reports***; (b) ***Product Releases***; (c) ***Year 2000 Track***; and (d) ***Earned Value Management***.

Discrepancy Reports will reflect the number of software, hardware, and/or documentation problems encountered in the information systems products in the field, by quarter.

Product Releases will reflect the number of product releases, by category of release, made quarterly.

Year 2000 Track will reflect the status of all the Information Systems and their completion of year 2000 migration plans.

Earned Value Management performance indicator is in the process of being implemented. Data is expected to be available for pilot systems in second quarter of FY98.

THE FUTURE

Downsizing and Competition - The next few years will present unique challenges and opportunities to Air Force Working Capital Fund activities. Force structure reductions and the administration's *Reinvention of Government* program have led to a continuing decrease in personnel levels. The *Base Realignment and Closure (BRAC)* process has closed one maintenance center and will shortly close and realign two major depots. The *Quadrennial Defense Review (QDR)* is seeking further opportunities to restructure and outsource support activities to achieve significant economies. In the short term, the impact on Air Force business areas will be considerable workload and personnel turbulence--and an unavoidable impact on productivity. The challenge for the mid-term is to "manage through" the transition, maintaining an uninterrupted high level of support effectiveness. Over both the mid- and long-term, clear opportunities exist for increased efficiency for consolidated and reengineered logistics functions, a new partnership with industry, and significant savings in support costs.

Financial Systems and Information - The Air Force is actively engaged in improving our financial and functional accounting systems. In FY96, the Air Force canceled the Depot Maintenance Management Information System (DMMIS). In FY97, it underwent a comprehensive review of potential replacement systems, which included Commercial-off-the-Shelf (COTS) solutions and the Defense Industrial Financial Management System (DIFMS). The DMMIS replacement will provide both cost accounting and production control for all shops in depot maintenance. The decision was made in early FY98 to adopt Navy developed DIFMS. Also, in the *Depot Maintenance* area, we've used a modeling technique to review budget processes, identify process improvements, and implement new automated tools at all management levels. This effort has streamlined the budget process and provided new capability for analysis and management decision making during the budget and execution phases.

In the *Supply Management* area, a number of new tools are being developed to capture sales data at the local level, and to tie that performance data to the cost of inventory bought and sold. The ongoing development associated with the consolidation of the wholesale divisions has created new capability for more discrete pricing of weapon system items which will improve our customer support in the long term.

In the *Information Services* area, the Industrial Fund Accounting System (IFAS) is being looked at for modernization or replacement with commercial off the shelf software. The goal is to provide interoperable "open" applications and shared databases.

Overview

Through close cooperation with the Defense Finance and Accounting Service (DFAS), the Air Force has improved the quality and reliability of the existing financial reports, including the 1307 and SF 133. DFAS has developed these reports at the Air Logistics Center level for depot maintenance; supply management report decentralization will take place in the future. We are also working with DFAS and a private consulting firm to develop better cash management tools for both prediction and execution tracking.

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

WORKING CAPITAL FUNDS

CONSOLIDATED PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Consolidated
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$124,121	$282,115
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	573,182	441,334
(4) Interest Receivable		
(5) Advances and Prepayments	5,922	7,533
(6) Other Federal (Intragovernmental) (Note 6)	335,029	858,338
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	108,575	95,322
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments	143,682	161,323
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)	37	1
d. Inventory, Net (Note 8)	24,530,011	29,129,073
e. Work in Process (Note 9)	753,045	762,333
f. Operating Materials/Supplies, Net (Note 10)	696,813	681,672
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	1,442,659	1,508,537
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$28,713,076	$33,928,081
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Consolidated
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)	4	
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets	$4	
3. Total Assets	$28,713,080	$33,928,081
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$748,279	$516,937
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	1,322,551	1,005,292
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	468,546	503,657
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	118,759	121,889
(b) Annual Accrued Leave	106,518	95,355
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	85,832	117
c. Total Liabilities Covered by Budgetary Resources:	$2,850,485	$2,243,247

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Consolidated
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)	198.515	
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources	$198.515	
6. Total Liabilities	$3.049.000	$2.243.247
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$30.571	
b. Invested Capital	44,866.794	44,980.848
c. Cumulative Results of Operations	(19,034.770)	(13,286,243)
d. Other		(9.771)
e. Future Funding Requirements	(198.515)	
f. Total Net Position	$25.664.080	$31.684.834
8. Total Liabilities and Net Position	$28.713.080	$33.928.081

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public	334,834	142,501
b. Intragovernmental	12,313,470	13,534,595
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	361,644	165,413
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$13,009,948	$13,842,509
EXPENSES		
9. Program or Operating Expenses (Note 23)	$2,403,732	$2,493,601
10. Cost of Goods Sold (Note 24)		
a. To the Public	124,508	142,737
b. Intragovernmental	10,978,492	11,692,998
11. Depreciation and Amortization	13,500	119,173
12. Bad Debts and Writeoffs	(1,893)	5,611
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other	10	30
14. Other Expenses (Note 25)	4,474,002	(2,769,052)
15. Total Expenses	$17,992,351	$11,685,098
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($4,982,403)	$2,157,411
17. Plus (Minus) Extraordinary Items (Note 26)	(3,530)	(33,127)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,985,933)	$2,124,284

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$31,684,834	$29,663,386
20. Adjustments (Note 27)	(756,244)	(4,679,558)
21. Net Position, Beginning Balance, as Restated	$30,928,590	$24,983,828
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(4,985,933)	2,124,284
23. Plus (Minus) Non Operating Changes (Note 28)	(278,577)	4,576,722
24. Net Position, Ending Balance	$25,664,080	$31,684,834

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Consolidated
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,985,933)	$2,124,284
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	(145,103)	224,131
4. Decrease (Increase) in Other Assets	5,136,267	(2,603,678)
5. Increase (Decrease) in Accounts Payable	196,235	107,726
6. Increase (Decrease) in Other Liabilities	609,519	11,200
7. Depreciation and Amortization	13,500	119,173
8. Other Unfunded Expenses	(25,114)	
9. Other Adjustments	(822,563)	(8,394)
10. Total Adjustments	$4,962,741	($2,149,842)
11. Net Cash Provided (Used) by Operating Activities	($23,192)	($25,558)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment	(83,236)	(189,033)
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities	($83,236)	($189,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$30,571	
21. Add:		
a. Restorations		
b. Transfers of Cash from Others	32,500	2,504,720
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others	114,600	2,553,325
23. Net Appropriations	($51,529)	($48,605)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Consolidated
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	1997	1996
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities	($51,529)	($48,605)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($157,957)	($263,196)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	282,115	545,311
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$124,158	$282,115

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$10	$30

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

CONSOLIDATING PRINCIPAL STATEMENTS

Consolidating Statements

Department of Defense
Air Force Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	($503,472)	$432,209	$164,177
(2) Investments, Net (Note 4)			
(3) Accounts Receivable, Net (Note 5)	509,083	270,411	19,495
(4) Interest Receivable			
(5) Advances and Prepayments	4,663	1,259	
(6) Other Federal (Intragovernmental) (Note 6)	335,029		
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Investments (Note 4)			
(2) Accounts Receivable, Net (Note 5)	82,058	24,998	1,517
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)			
(4) Interest Receivable, Net			
(5) Advances and Prepayments	108,227	35,454	
(6) Other Non-Federal (Governmental) (Note 6)			
c. Cash and Other Monetary Assets (Note 3)	37		
d. Inventory, Net (Note 8)	24,530,011		
e. Work in Process (Note 9)		751,580	
f. Operating Materials/Supplies, Net (Note 10)		696,779	
g. Stockpile Materials, Net (Note 11)			
h. Seized Property (Note 12)			
i. Forfeited Property, Net (Note 13)			
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)			
k. Property, Plant and Equipment, Net (Note 15)	154,766	1,247,307	40,332
l. War Reserves			
m. Other Entity Assets			
n. Total Entity Assets	$25,220,402	$3,459,997	$225,521
2. Non-Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)			
(2) Accounts Receivable, Net (Note 5)			
(3) Interest Receivable, Net			
(4) Other (Note 6)			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Receivable, Net (Note 5)			
(2) Interest Receivable, Net			
(3) Other (Note 6)	4		
c. Cash and Other Monetary Assets (Note 3)			
d. Other Non-Entity Assets			
e. Total Non-Entity Assets	$4		
3. Total Assets	$25,220,406	$3,459,997	$225,521

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$25,633	($61,265)	$66,841		$124,121
1,139	(12,505)	45,555	(259,996)	573,182
				5,922
				335,029
2				108,575
		1		143,682
				37
				24,530,011
		1,465		753,045
		34		696,813
		254		1,442,659
$26,774	($73,770)	$114,150	($259,996)	$28,713,076
				4
				$4
$26,774	($73,770)	$114,150	($259,996)	$28,713,080

Consolidating Statements

Department of Defense
Air Force Working Capital Fund
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
4. Liabilities Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	$26.685	$1.053.987	$1.097
(2) Interest Payable			
(3) Debt (Note 16)			
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	317.138	996.795	
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	412.506	21.169	22.693
(2) Accrued Payroll and Benefits			
(a) Salaries and Wages	888	115.636	(389)
(b) Annual Accrued Leave	10.916	90.395	
(c) Severance Pay and Separation Allowance			
(3) Interest Payable			
(4) Liabilities for Loan Guarantees (Note 7)			
(5) Lease Liabilities (Note 18)			
(6) Pensions and Other Actuarial Liabilities (Note 19)			
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		844	
c. Total Liabilities Covered by Budgetary Resources:	$768.133	$2.278.826	$23.401
5. Liabilities Not Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable			
(2) Debt (Note 16)			
(3) Other Federal (Intragovernmental) Liabilities (Note 17)			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable			
(2) Debt (Note 16)			
(3) Lease Liabilities (Note 18)			
(4) Pensions and Other Actuarial Liabilities (Note 19)			
(5) Other Non-Federal (Governmental) Liabilities (Note 17)			
c. Total Liabilities Not Covered by Budgetary Resources			
6. Total Liabilities	$768.133	$2.278.826	$23.401
NET POSITION (Note 20)			
7. Balances:			
a. Unexpended Appropriations	$30.571		
b. Invested Capital	43,190.916	1,499.084	161.580
c. Cumulative Results of Operations	(18,769.214)	(317.912)	40.540
d. Other			
e. Future Funding Requirements			
f. Total Net Position	$24.452.273	$1.181.172	$202.120
8. Total Liabilities and Net Position	$25.220.406	$3.459.998	$225.521

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$120	($73,770)	$159	($259,996)	$748,279
4,158		4,460		1,322,551
607		11,571		468,546
		2,624		118,759
		5,207		106,518
		84,988		85,832
$4,885	($73,770)	$109,009	($259,996)	$2,850,485
	198,515			198,515
	$198,515			$198,515
$4,885	$124,745	$109,009	($259,996)	$3,049,000
				$30,571
20,393		(5,179)		44,866,794
1,496		10,320		(19,034,770)
	(198,515)			(198,515)
$21,889	($198,515)	$5,141		$25,664,080
$26,774	($73,770)	$114,150	($259,996)	$28,713,080

Consolidating Statements

Department of Defense
Air Force Defense Business Operations Fund
Statement of Financial Position
As of September 30, 1996
(Thousands)

ASSETS	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)	($62,059)	$183,022	$170,142
(2) Investments, Net (Note 4)			
(3) Accounts Receivable, Net (Note 5)	434,365	413,910	26,834
(4) Interest Receivable			
(5) Advances and Prepayments	658	6,875	
(6) Other Federal (Intragovernmental) (Note 6)	858,338		
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Investments (Note 4)			
(2) Accounts Receivable, Net (Note 5)	74,799	18,446	2,064
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)			
(4) Interest Receivable, Net			
(5) Advances and Prepayments	124,115	37,677	
(6) Other Non-Federal (Governmental) (Note 6)			
c. Cash and Other Monetary Assets (Note 3)	1		
d. Inventory, Net (Note 8)	29,129,073		
e. Work in Process (Note 9)		762,333	
f. Operating Materials/Supplies, Net (Note 10)		681,672	
g. Stockpile Materials, Net (Note 11)			
h. Seized Property (Note 12)			
i. Forfeited Property, Net (Note 13)			
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)			
k. Property, Plant and Equipment, Net (Note 15)	161,737	1,305,067	41,733
l. War Reserves			
m. Other Entity Assets			
n. Total Entity Assets	$30,721,027	$3,409,002	$240,773
2. Non-Entity Assets:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Fund Balance with Treasury (Note 2)			
(2) Accounts Receivable, Net (Note 5)			
(3) Interest Receivable, Net			
(4) Other (Note 6)			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Receivable, Net (Note 5)			
(2) Interest Receivable, Net			
(3) Other (Note 6)			
c. Cash and Other Monetary Assets (Note 3)			
d. Other Non-Entity Assets			
e. Total Non-Entity Assets			
3. Total Assets	$30,721,027	$3,409,002	$240,773

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$23,489	($47,575)	$15,096		$282,115
1,253	(12,220)	40,731	(463,539)	441,334
				7,533
				858,338
13				95,322
		31		161,823
				1
				29,129,073
				762,333
				681,672
				1,508,537
$24,755	($59,795)	$55,858	($463,539)	$33,928,081
$24,755	($59,795)	$55,858	($463,539)	$33,928,081

Consolidating Statements

Department of Defense
Air Force Defense Business Operations Fund
Statement of Financial Position
As of September 30, 1996
(Thousands)

LIABILITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
4. Liabilities Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable	$406	$1,042,346	($399)
(2) Interest Payable			
(3) Debt (Note 16)			
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	319,495	681,639	
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable	384,049	23,113	55,407
(2) Accrued Payroll and Benefits			
(a) Salaries and Wages	442	118,374	26
(b) Annual Accrued Leave	9,241	86,114	
(c) Severance Pay and Separation Allowance			
(3) Interest Payable			
(4) Liabilities for Loan Guarantees (Note 7)			
(5) Lease Liabilities (Note 18)			
(6) Pensions and Other Actuarial Liabilities (Note 19)			
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		117	
c. Total Liabilities Covered by Budgetary Resources:	$713,633	$1,951,703	$55,034
5. Liabilities Not Covered by Budgetary Resources:			
a. Transactions with Federal (Intragovernmental) Entities:			
(1) Accounts Payable			
(2) Debt (Note 16)			
(3) Other Federal (Intragovernmental) Liabilities (Note 17)			
b. Transactions with Non-Federal (Governmental) Entities:			
(1) Accounts Payable			
(2) Debt (Note 16)			
(3) Lease Liabilities (Note 18)			
(4) Pensions and Other Actuarial Liabilities (Note 19)			
(5) Other Non-Federal (Governmental) Liabilities (Note 17)			
c. Total Liabilities Not Covered by Budgetary Resources			
6. Total Liabilities	$713,633	$1,951,703	$55,034
NET POSITION (Note 20)			
7. Balances:			
a. Unexpended Appropriations			
b. Invested Capital	43,218,616	1,585,259	156,580
c. Cumulative Results of Operations	(13,211,222)	(127,960)	38,930
d. Other			(9,771)
e. Future Funding Requirements			
f. Total Net Position	$30,007,394	$1,457,299	$185,739
8. Total Liabilities and Net Position	$30,721,027	$3,409,002	$240,773

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
($2,043)	($59,795)	($39)	($463,539)	$516,937
4,158				1,005,292
608		40,480		503,657
		3,047		121,889
				95,355
				117
$2,723	($59,795)	$43,488	($463,539)	$2,243,247
$2,723	($59,795)	$43,488	($463,539)	$2,243,247
20,393				44,980,848
1,639		12,370		(13,286,243)
				(9,771)
$22,032		$12,370		$31,684,834
$24,755	($59,795)	$55,858	($463,539)	$33,928,081

Consolidating Statements

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

REVENUES AND FINANCING SOURCES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Appropriated Capital Used			
2. Revenues from Sales of Goods and Services			
a. To the Public	145,608	189,226	
b. Intragovernmental	11,636,204	4,002,670	
3. Interest and Penalties, Non-Federal			
4. Interest, Federal			
5. Taxes (Note 21)			
6. Other Revenues and Financing Sources (Note 22)	186,874	25,663	
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies			
8. Total Revenues and Financing Sources	$11,968,686	$4,217,559	
EXPENSES			
9. Program or Operating Expenses (Note 23)	$2,403,732		
10. Cost of Goods Sold (Note 24)			
a. To the Public	124,508		
b. Intragovernmental	9,950,009	4,361,522	
11. Depreciation and Amortization	13,500		
12. Bad Debts and Writeoffs	(1,893)		
13. Interest			
a. Federal Financing Bank/Treasury Borrowing			
b. Federal Securities			
c. Other	10		
14. Other Expenses (Note 25)	4,292,410	32,485	
15. Total Expenses	$16,782,276	$4,394,007	
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($4,813,590)	($176,448)	
17. Plus (Minus) Extraordinary Items (Note 26)			
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,813,590)	($176,448)	
19. Net Position, Beginning Balance, as Previously Stated	$30,007,394	$1,457,299	$185,739
20. Adjustments (Note 27)	(738,772)	(22,529)	11,355
21. Net Position, Beginning Balance, as Restated	$29,268,622	$1,434,770	$197,094
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(4,813,590)	(176,448)	
23. Plus (Minus) Non Operating Changes (Note 28)	(2,759)	(77,150)	5,026
24. Net Position, Ending Balance	$24,452,273	$1,181,172	$202,120

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
				334,834
13		349,542	(3,674,959)	12,313,470
	149,107			361,644
$13	$149,107	$349,542	($3,674,959)	$13,009,948
				$2,403,732
				124,508
		341,920	(3,674,959)	10,978,492
				13,500
				(1,893)
				10
	149,107			4,474,002
	$149,107	$341,920	($3,674,959)	$17,992,351
$13		$7,622		($4,982,403)
		(3,530)		(3,530)
$13		$4,092		($4,985,933)
$22,032		$12,370		$31,684,834
(156)		(6,142)		(756,244)
$21,876		$6,228		$30,928,590
13		4,092		(4,985,933)
(1)	(198,515)	(5,179)		(278,577)
$21,888	($198,515)	$5,141		$25,664,080

Consolidating Statements

Department of Defense
Air Force Defense Business Operations Fund
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1996
(Thousands)

REVENUES AND FINANCING SOURCES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Appropriated Capital Used			
2. Revenues from Sales of Goods and Services			
a. To the Public	142,501		
b. Intragovernmental	12,499,733	4,307,554	
3. Interest and Penalties, Non-Federal			
4. Interest, Federal			
5. Taxes (Note 21)			
6. Other Revenues and Financing Sources (Note 22)	146,426	18,965	
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies			
8. Total Revenues and Financing Sources	$12,788,660	$4,326,519	
EXPENSES			
9. Program or Operating Expenses (Note 23)	$2,493,601		
10. Cost of Goods Sold (Note 24)			
a. To the Public	142,737		
b. Intragovernmental	10,785,939	4,192,126	
11. Depreciation and Amortization	13,903	105,270	
12. Bad Debts and Writeoffs	4,772	839	
13. Interest			
a. Federal Financing Bank/Treasury Borrowing			
b. Federal Securities			
c. Other	25		
14. Other Expenses (Note 25)	(2,814,889)	45,837	
15. Total Expenses	$10,626,088	$4,344,072	
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$2,162,572	($17,553)	
17. Plus (Minus) Extraordinary Items (Note 26)		(33,127)	
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$2,162,572	($50,680)	
19. Net Position, Beginning Balance, as Previously Stated	$28,492,531	$1,253,582	($285,033)
20. Adjustments (Note 27)	(4,642,829)	(26,958)	(9,771)
21. Net Position, Beginning Balance, as Restated	$23,849,702	$1,226,624	($294,804)
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	2,162,572	(50,680)	
23. Plus (Minus) Non Operating Changes (Note 28)	3,995,120	281,355	480,543
24. Net Position, Ending Balance	$30,007,394	$1,457,299	$185,739

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
				142,501
		174,994	(3,447,686)	13,534,595
22				165,413
$22		$174,994	($3,447,686)	$13,842,509
				$2,493,601
				142,737
		162,619	(3,447,686)	11,692,998
				119,173
				5,611
		5		30
				(2,769,052)
		$162,624	($3,447,686)	$11,685,098
$22		$12,370		$2,157,411
				(33,127)
$22		$12,370		$2,124,284
($3,893)	$206,199			$29,663,386
				(4,679,558)
($3,893)	$206,199			$24,983,828
22		12,370		2,124,284
25,903	(206,199)			4,576,722
$22,032		$12,370		$31,684,834

Consolidating Statements

Department of Defense
Air Force Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,813,590)	($176,448)	
Adjustments Affecting Cash Flow:			
2. Appropriated Capital Used			
3. Decrease (Increase) in Accounts Receivable	(81,977)	136,947	7,886
4. Decrease (Increase) in Other Assets	5,134,251	3,485	
5. Increase (Decrease) in Accounts Payable	54,738	9,696	(31,218)
6. Increase (Decrease) in Other Liabilities	(238)	317,426	(415)
7. Depreciation and Amortization	13,500		
8. Other Unfunded Expenses		(25,114)	
9. Other Adjustments	(744,402)	120,449	11,381
10. Total Adjustments	$4,375,872	$562,889	($12,366)
11. Net Cash Provided (Used) by Operating Activities	($437,718)	$386,441	($12,366)
CASH FLOWS FROM INVESTING ACTIVITIES			
12. Sale of Property, Plant and Equipment			
13. Purchase of Property, Plant and Equipment	(6,529)	(77,854)	1,401
14. Sale of Securities			
15. Purchase of Securities			
16. Collection of Loans Receivable			
17. Creation of Loans Receivable			
18. Other Investing Cash Provided (Used)			
19. Net Cash Provided (Used) by Investing Activities	($6,529)	($77,854)	$1,401
CASH FLOWS FROM FINANCING ACTIVITIES			
20. Appropriations (Current Warrants)	$30,571		
21. Add:			
a. Restorations			
b. Transfers of Cash from Others	27,500		5,000
22. Deduct:			
a. Withdrawals			
b. Transfers of Cash to Others	55,200	59,400	
23. Net Appropriations	$2,871	($59,400)	$5,000

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$13		$4,092		($4,985,933)
125	285	(4,826)	(203,543)	(145,103)
		(1,469)		5,136,267
2,162	(13,975)	(28,711)	203,543	196,235
	198,515	94,231		609,519
				13,500
				(25,114)
(156)	(198,515)	(11,318)		(822,563)
$2,131	($13,690)	$47,907		$4,962,741
$2,144	($13,690)	$51,999		($23,192)
		(254)		(83,236)
		($254)		($83,236)
				$30,571
				32,500
				114,600
				($51,529)

Consolidating Statements

Department of Defense
Air Force Working Capital Fund
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
24. Borrowing from the Public			
25. Repayments on Loans to the Public			
26. Borrowing from the Treasury and the Federal Financing Bank			
27. Repayments on Loans from the Treasury and the Federal Financing Bank			
28. Other Borrowings and Repayments			
29. Net Cash Provided (Used) by Financing Activities	$2,871	($59,400)	$5,000
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($441,376)	$249,187	($5,965)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(62,059)	183,022	170,142
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($503,435)	$432,209	$164,177

Supplemental Disclosure of Cash Flow Information:

33. Total Interest Paid	$10

Supplemental Schedule of Financing and Investing Activity:

34. Property and Equipment Acquired Under Capital Lease Obligations

35. Property Acquired Under Long-Term Financing Arrangements

36. Other Exchanges of Non-cash Assets or Liabilities

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
				($51,529)
$2,144	($13,690)	$51,745		($157,957)
23,489	(47,575)	15,096		282,115
$25,633	($61,265)	$66,841		$124,158

$10

Consolidating Statements

Department of Defense
Air Force Defense Business Operations Fund
Statement of Cash Flows
For the Period Ended September 30, 1996
(Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$2,162,572	($50,680)	
Adjustments affecting Cash Flow:			
2. Appropriated Capital Used			
3. Decrease (Increase) in Accounts Receivable	56,570	(79,090)	25,220
4. Decrease (Increase) in Other Assets	(2,480,411)	(123,236)	
5. Increase (Decrease) in Accounts Payable	89,486	286,221	(24,318)
6. Increase (Decrease) in Other Liabilities	16,287	(8,147)	26
7. Depreciation and Amortization	13,903	105,270	
8. Other Unfunded Expenses			
9. Other Adjustments	(10,404)	38,979	(9,772)
10. Total Adjustments	($2,314,569)	$219,997	($8,844)
11. Net Cash Provided (Used) by Operating Activities	($151,997)	$169,317	($8,844)
CASH FLOWS FROM INVESTING ACTIVITIES			
12. Sale of Property, Plant and Equipment			
13. Purchase of Property, Plant and Equipment	(15,030)	(167,831)	(6,325)
14. Sale of Securities			
15. Purchase of Securities			
16. Collection of Loans Receivable			
17. Creation of Loans Receivable			
18. Other Investing Cash Provided (Used)			
19. Net Cash Provided (Used) by Investing Activities	($15,030)	($167,831)	($6,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
20. Appropriations (Current Warrants)			
21. Add:			
a. Restorations			
b. Transfers of Cash from Others	1,689,546	308,634	480,543
22. Deduct:			
a. Withdrawals			
b. Transfers of Cash to Others	2,326,850	47,380	
23. Net Appropriations	($637,304)	$261,254	$480,543

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$22		$12,370		$2,124,284
1	1,912	(40,731)	260,249	224,131
		(31)		(2,603,678)
(1,472)	(22,383)	40,441	(260,249)	107,726
(13)		3,047		11,200
				119,173
(93)	(27,104)			(8,394)
($1,577)	($47,575)	$2,726		($2,149,842)
($1,555)	($47,575)	$15,096		($25,558)
153				(189,033)
$153				($189,033)
25,997				2,504,720
	179,095			2,553,325
$25,997	($179,095)			($48,605)

Consolidating Statements

Department of Defense
Air Force Defense Business Operations Fund
Statement of Cash Flows
For the Period Ended September 30, 1996
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	SUPPLY MANAGEMENT	DEPOT MAINTENANCE	TRANS-PORTATION
24. Borrowing from the Public			
25. Repayments on Loans to the Public			
26. Borrowing from the Treasury and the Federal Financing Bank			
27. Repayments on Loans from the Treasury and the Federal Financing Bank			
28. Other Borrowings and Repayments			
29. Net Cash Provided (Used) by Financing Activities	($637,304)	$261,254	$480,543
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($804,331)	$262,740	$465,374
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	742,272	(79,718)	(295,232)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($62,059)	$183,022	$170,142

Supplemental Disclosure of Cash Flow Information:

33. Total Interest Paid	$25

Supplemental Schedule of Financing and Investing Activity:

34. Property and Equipment Acquired Under Capital Lease Obligations

35. Property Acquired Under Long-Term Financing Arrangements

36. Other Exchanges of Non-cash Assets or Liabilities

BASE SUPPORT	COMPONENT	INFORMATION SERVICES	ELIMINATIONS	TOTAL
$25,997	($179,095)			($48,605)
$24,595	($226,670)	$15,096		($263,196)
(1,106)	179,095			545,311
$23,489	($47,575)	$15,096		$282,115
		$5		$30

Consolidating Statements

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

CONSOLIDATED FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

DEPARTMENT OF THE AIR FORCE
WORKING CAPITAL FUNDS
CONSOLIDATED FINANCIAL OPERATIONS

SUPPLY MANAGEMENT
DEPOT MAINTENANCE
TRANSPORTATION
BASE SUPPORT
COMPONENT
INFORMATION SERVICES
ELIMINATIONS

NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements are prepared to report the financial position, results of operations, and the cash flow of the Department of the Air Force as required by the Chief Financial Officers (CFOs) Act and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives, that are used to monitor and control the department's use of budgetary resources.

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 (DoD) 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.

In support of these objectives, stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in Title 10, U.S.C., Section 2208. The revolving funds were established as a means to more effectively control

Footnotes

the cost of work performed by DoD. The DoD began operating under the revolving fund concept as early as July 1, 1951.

In FY 1992, two types of revolving funds - industrial funds and stock funds - were incorporated into the Defense Business Operations Fund (DBOF). DBOF essentially combined existing commercial or business operations that were previously managed as individual revolving funds into a single revolving, or business management, fund. DBOF, or the Fund, operated with financial principles that provided improved cost visibility and accountability to enhance business management and improved the decision making process. The Fund built on revolving fund principles previously used for industrial and commercial-type activities.

The establishment of the Fund did not change any previous organizational reporting structure or command authority relationship. Combining business activities under a single Treasury Fund Code allowed consolidation of cash management, while functional and cost management responsibilities remained with the Military Departments and Defense Agencies.

Activities formerly financed under the industrial funds included:

(1) Shipyards
(2) Ordnance Plants
(3) Printing Plants
(4) Repair and Overhaul Facilities
(5) Traffic Management
(6) Terminal Services
(7) Research and Development Activities
(8) Real Property Maintenance Services
(9) Airlift and Sealift Transportation

Typical classes of material formerly financed under the stock funds included:

(1) Clothing
(2) Medical Supplies
(3) Aviation, Ground, and Missile Fuels
(4) Subsistence Supplies
(5) Construction Supplies
(6) Electronic Supplies
(7) Ordnance Repair Parts
(8) Aircraft and Missile Parts
(9) Tank and Automotive Supplies
(10) General Parts and Supplies
(11) Troop Support

Footnotes

On December 11, 1996, DBOF became the Defense Working Capital Funds (DWCF). Again, the establishment of the new funds did not change any previous organizational reporting structure or command authority relationship. Business areas were renamed activity groups and these combined activities remained under a single Treasury Fund Code continuing to allow consolidation of cash management, while functional and cost management responsibilities continue to remain with the Military Departments and Defense Agencies.

For FY 1997, the activity groups included in the Air Force portion of the Working Capital Funds (WCF) are:

(1) Supply Management
(2) Depot Maintenance
(3) Base Support
(4) Transportation
(5) Component
(6) Information Services - Air Force Central Design Activities
(7) Eliminations

Supply Management

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD Directives 7420.13 and DoD Financial Management Regulation 7000.14-R, to finance inventories of supplies. Most inventories of supplies are financed by use of a stock fund. Exceptions include an item financed with a procurement appropriation or when financing by other means has been deemed more economical and efficient. A stock fund operates as a revolving fund acquiring inventories with funds received from prior sales to customers.

There are now eight active business activities in the Supply Management Business Area. They are: General Support Division (GSD), Medical-Dental Division, Systems Support Division (SSD), Fuels Division, Academy Division, Cost of Operations Division (COD), Cost of Operations Division (COD) for Fuels, Repairable Support Division (RSD), and Troop Support.

Depot Maintenance

The Air Force Depot Maintenance activity group performs manufacturing, development and test work as well as aviation maintenance. Primarily in support of Air Force organizations, it also supports other DoD components, government agencies, and foreign governments. Due to a decreased force structure and technology advances, the Depot Maintenance environment is rapidly changing. Weapons systems embodying new material and technologies require new maintenance processes while improvements in reliability reduce the frequency of maintenance for many items. The net result requires a great flexibility in addressing both wartime and peacetime workload changes. The Air Force

Footnotes

Depot Maintenance activity group achieves this flexibility by employing the unique strengths of organic (in house) and contractor repair sources.

Base Support

The Air Force Base Support activity group consists of residual accounting for the Laundry and Dry Cleaning Service, the Air Force commissary, and the San Antonio Real Property Maintenance Agency (SARPMA). The Laundry and Dry Cleaning Service provided laundry and dry cleaning and other textiles services to the government, DoD, and other authorized activities and individuals worldwide using government-owned facilities. Primary customers were medical facilities serving, Army, Marine, Navy, and Air Force installations. In FY 1995, the Laundry and Dry Cleaning Service was removed from DBOF and returned to the Air Force to be funded with Air Force O&M appropriations, except for accounting of residual unliquidated balances. The Air Force Commissary was decapitalized as a working capital fund and capitalized under the Defense Commissary Agency (DeCA). SARPMA was disestablished in 1989. Like laundry and dry cleaning, only residual accounting for unliquidated balances remain.

Transportation

Air Mobility Command's (AMCs) "Air Force unique" transportation responsibilities include the executive travel mission and operation of other operational support aircraft, the air weather service, AMC training, AMC base operations, tanker operations, and other miscellaneous AMC functions. The Air Force unique transportation DBOF was established during FY 1993 and disestablished in FY 1995 in accordance with the DWCF improvement plan. Only residual accounting of unliquidated balances remain.

Information Services - Air Force Central Design Activities

The Air Force Central Design Activities (CDAs) provide software design, development, maintenance, and technical support services. As of October 1, 1995, the Air Force CDA business area transferred to the Defense Business Operations Fund (DBOF). This transfer complied with PBD 433 in expanding the Information Services Business Area. Transfer procedures were set forth in DFAS-HQ/AB memo of May 3, 1995. The Central Design Activities included the Standard Systems Group and the Materiel Systems Group. Prior to this transfer, the CDAs were funded by Air Force Operations and Maintenance funds. During FY 1996, DFAS-Denver provided only interim accounting support because the CDAs accounting support was in transition to the Industrial Fund Accounting System (IFAS) and subsequent transfer to the Pensacola Operating Location. In FY 1997, the CDAs went on-line with IFAS and all financial reports, including the CFO Statements, are accomplished by DFAS Cleveland.

Footnotes

C. Budgets and Budgetary Accounting:

Operations of the activity groups are based on the policies and procedures that have been in effect for the stock and industrial funds. However, a number of management, accounting, policy, and procedural changes were implemented. These include:

(1) Funding Authority:

Prior to FY 1992, industrial fund activities were not issued funding documents. Activities now receive their obligation authority for customer orders from the Air Force Deputy Assistant Secretary, Budget (SAF/FMB). The total costs that can be incurred are a function of the cost goals applied to the actual customer funded workload.

(2) Minor Construction Funding:

Policy and procedures have been changed to fund minor construction projects costing $100,000 or more, but less than $300,000 through a separate section of the capital budget and depreciate them over a 20 year period.

(3) Software Development Costs:

Policy and procedures have been changed to move the development costs of new software meeting the time and cost thresholds (2 years or more and $100,000 or more) to the capital budget. Software releases will be amortized after release.

(4) Capital Budgeting:

Activity group budgets are segregated into operating and capital budgets. Any investment in equipment, software, minor construction, and other management improvements costing $100,000 or more with a useful life of 2 years or greater are funded through capital budget and its cost depreciated/amortized over the relevant life cycle.

(5) Asset Capitalization and Depreciation:

The assets of the industrial and stock funds were transferred to DBOF and subsequently to WCF. The capital assets, excluding land and weapon systems, which exceed a unit cost of $100,000 or more, are subject to depreciation. In addition, capital assets previously capitalized using the thresholds will continue to be depreciated if depreciation was being recorded prior to the increase to the $100,000 threshold.

(6) Rates and Prices:

All Air Force activity groups areas in WCF are expected to set their rates and prices based upon full cost recovery ensuring that cost reductions made by an activity will be passed on to the customers. Rates and prices will not change during the year of execution.

Footnotes

The FY 1997, Air Force DWCF operations encompass three activity groups: Supply Management, Depot Maintenance, and Information Services. These activity groups use their resources to finance the initial cost of products or services for activities of the United States government, primarily those of the DoD. Work is generated by the acceptance of customer orders from ordering activities. For the current fiscal year, these revolving funds recorded an operating profit/deficit shown in the following schedules.

Supply Management
Sales, Costs of Sales and Expenses,
and Net Operating Results by Division
(in thousands)

Division	Sales	Cost of Sales and Expenses	Net Operating Results
Air Force	11,968,686	16,782,276	(4,813,590)
Total	$11,968,686	$16,782,276	($4,813,590)

Depot Maintenance
Revenues, Expenses, and Net Operating Results by Division
(in thousands)

Division	Revenues	Expenses	Net Operating Results
Air Force	4,217,559	4,394,007	(176,448)
Total	$4,217,559	$4,394,007	($176,448)

Information Services
Sales, Costs of Sales and Expenses,
and Net Operating Results by Division
(in millions)

Division	Revenues	Expenses	Net Operating Results
Air Force	$349,542	$345,450	$4,092
Total	$349,542	$345,450	$4,092

Amounts shown in the three tables are before intragency eliminations.

Footnotes

D. Basis of Accounting:

In general, the financial statements are presented on the accrual basis of accounting as required by the DoD Accounting Manual. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant as opposed to the accrual basis. In addition to the accrual basis of accounting, Depot Maintenance also uses the full absorption accounting principal. During FY 1996, DFAS-DE, SAF/FMB, and OSD/FM jointly agreed on the use of this principal by Depot Maintenance. This means that depreciation and bad debt expenses are included in the figuring of cost of services sold.

To the extent that guidance is not provided by the DoD Accounting Manual, DoD Components are allowed to follow other guidance promulgated by the Defense Finance and Accounting Service (DFAS), the General Accounting Office (GAO), the Office of Management and Budget (OMB), the Department of Treasury, the Federal Accounting Standards Advisory Board (FASAB), or the Financial Accounting Standards Board.

The Air Force uses several service-unique general ledger structures plus data converted from the Defense Business Management System (DBMS). The financial statements depicted are derived from supply, maintenance and accounting records utilizing the Air Force service- and DBMS-unique general ledger structures. The activity groups' general ledger accounts are "crosswalked" to the DoD chart of accounts to produce the financial statements.

E. Revenues and Other Financing Sources:

Each activity group recognizes revenue in the following manner:

(1) Supply Management

Air Force Supply Management revenue is recognized at the point of sale under constructive delivery terms (normally dropped from inventory when an item is released from inventory or delivered to the customer). Foreign Military Sales (FMS) transactions additionally require proof of shipment before revenue is recognized. Generally, Supply Management revenue consists of sales at standard prices less sales return. Sales of RSD items are at exchange price. The Medical-Dental division and the Air Force Academy Store add surcharges to their billings rather than include a surcharge in the standard price. Intra-division Supply Management Sales have been eliminated. Cash discounts and interfund retail stock loss allowances are additional revenue.

(2) Depot Maintenance

The Deputy Secretary of Defense (Comptroller) directed, per memorandum dated January 1992, all services to use the percentage of completion accounting method to recognize revenue and expenses. The DoD 7000.14-R, Financial Management Regulation, Chapter 11B, January 1995, also prescribes this method of accounting. Air Force Depot

Footnotes

Maintenance uses a method called incremental revenue recognition that basically agrees with the prescribed method. As Depot Maintenance completes a job order, revenue is recognized by either calculating the hourly sales rate or an end item sales price, depending on the type of workload.

Within the Depot Maintenance activity group, organic revenue is generally recognized at job completion; however, the related expenses are accrued monthly. In addition, other contract revenue is based on the percentage-of-completion method augmented with prorations based on activity group policies.

(3) Information Services

For financial reporting purposes under accrual accounting, operating expenses for activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until depreciated.

F. Accounting for Intra-governmental Activities:

The Department, 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 Department as though the agency were a stand alone entity.

The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally employees and personnel covered by FERS and MRS also have varying coverage under Social Security. Reporting pension benefits under these retirement systems is the responsibility of Office of Personnel Management for CSRS and FERS and the Department of Defense for MRS. Total contributions to these retirement plans and Social Security are included in the Component financial statements (reference Component Footnote 22). The total of $149,107 includes retirement $103,358, health benefits $45,527, and life insurance $222. Unfortunately, these statistics cannot be broken down between the respective retirement systems.

The Air Force Supply Management Activity group sells assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provision of the Act, DoD has the authority to sell defense articles and services to foreign countries, generally at no profit or loss to the US 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.

Footnotes

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

The Department's fund resources are maintained in U.S. Treasury accounts. Its cash receipts and disbursements are processed by the Treasury Department, and the balance with the U.S. Treasury represents the aggregate of all unexpended balances. As of September 30, 1997, the Department had $124,123 million in funds with the U.S. Treasury.

H. Foreign Currency: Not applicable

I. Accounts Receivable:

As presented in the consolidated Statement of Financial Position, accounts receivable includes accounts, claims, and refunds receivable from other entities.

(in thousands)

Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$308,722	($99)	$308,623
Public	109,198	(2,451)	106,747
Refunds	48,435	0	48,435
Claims	446	0	446
Total	$466,801	($2,550)	$464,251

Only Supply Management allows for uncollectible accounts based upon analysis of historical data from prior year accounts receivable balances, write-offs, and collection policy.

J. Loans Receivable: Not applicable.

K. Inventory:

Only the Supply Management activity group accounts for inventories. To calculate the Allowances for (Gain) or Loss on Inventories, an inventory worksheet is prepared monthly for each fund code within Supply Management Activity Group.

Inventory is not applicable to the remaining Air Force activity groups.

L. Investments in U.S. Government Securities: Not applicable.

Footnotes

M. Property and Equipment:

Generally, all Air Force activity groups value property and equipment at acquisition cost. Depreciation is, generally, recorded as required by the DoD accounting manual. For more specific information about each Air Force activity group, reference the individual footnotes.

N. Prepaid and Deferred Charges:

Information Services posts payments in advance that are applicable to travel advances. These advances are recognized as expenditures and expenses when the related goods and services are received. Depot Maintenance posted prepayments and deferred charges to intragovernment of $1,259M and to government of $35.454M. For all the other Air Force activity groups, this area is not applicable.

O. Leases: Not applicable.

P. Contingencies: Not applicable.

Q. Accrued Leave:

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

The Supply Management activity group's Cost of Operations Division (COD) has a balance of $10,283 and Cost of Operations (COD) for Fuels has a balance of $633. Depot Maintenance posted annual accrued leave for $90,395M.

R. Equity:

Equity consists of invested capital, cumulative results of operations, and unexpended appropriations less unfunded liabilities. Invested capital, as presented in the consolidated Statement of Financial Position, represents the value of the Department's capital assets as reported at average or actual costs. The portion of invested capital attributable to land and buildings represent their undepreciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are depreciated or consumed in operations, or when average costs are decreased. Donated capital and trust balances have been included in invested capital.

Footnotes

Cumulative results of operations for working capital funds represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

Refer to the individual activity group's footnotes for more information on equity.

S. Aircraft/Ship Crashes: Not applicable.

T. Treaties for Use of Foreign Bases:

Unique circumstances arise when DoD Components, including Air Force activities, require the use of property on bases located in foreign countries. The DoD Components have the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire.

These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets.

U. Comparative Data:

Comparative data are presented for FY 1997 and FY 1996.

V. Undelivered Orders:

The Department is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1997. For Supply Management, undelivered orders as reported on the SF133, Report on Budget Execution line 14c,, amounted to $3,297,087. For Depot Maintenance, aggregate undelivered orders amounted to $1,335,630, and for Information Services, it totaled $55,566 (all reported in millions).

Footnotes

Note 2. Fund Balances with Treasury

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	($434,397)	$0	$0	($434,397)
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	2,527,909	0	0	2,527,909
Unfunded Contract Authority	0	(1,969,391)	0	0	(1,969,391)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	$124,121	$0	$0	$124,121

Data for this table was taken from the FMS 2108 per instructions from DFAS-HQ.

B. Other Information:

The Treasury Balance, as reported on the AR(M)1307s, breaks down as:

	Funds Collected	Funds Disbursed	Funds with Treasury	Treasury Balance
Operating Program:				
Supply Management	$8,391,894	($8,842,934)	($59,189)	($510,229)
Base Support	(6)	2,162	23,902	26,058
Transportation	5,206	(16,172)	175,142	164,176
Depot Maintenance	4,487,756	(4,229,498)	316,646	574,904
Information Services	347,269	(295,269)	15,096	67,096
Component	285	(13,975)	(47,575)	(61,265)
Capital Program:				
Supply Management	11,033	(4,277)		6,756
Base Support			(425)	(425)
Depot Maintenance	127,182	(76,854)	(193,024)	(142,696)
Information Services		(254)		(254)
Total Treasury Balance	$13,370,619	($13,477,071)	$230,573	$124,121

Footnotes

The Statement of Financial Position, line 1A, shows $124,123 asn the fund balance with Treasury. The difference between the statement and tables shown above can be attributed to rounding.

Note 3. Cash, Foreign Currency, and Other Monetary Assets

	Entity Assets	Non-Entity Assets
A. Cash	$37	$0
B. Foreign Currency	0	0
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	0	0
D. Total Cash, Foreign Currency and Other Monetary Assets	$37	

E. Other Information:

For all the Air Force activity groups, except Supply Management, cash, foreign currency, and other monetary assets are not applicable. Supply Management shows a cash posting of $37. This amount represents a Disbursing Officer's accountablility for checks received after the end of month but before the accounting reports are finalized.

Note 4. Investments. Not applicable.

Footnotes

Note 5. Accounts Receivable

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$573,281	$99	Historical	$573,182
Governmental	111,026	2,451	Historical	108,575
B. Non-Entity Receivables:				
Intragovernmental	$0	$0	N/A	$0
Governmental	0	0	N/A	0

C. Other Information:

Of all the Air Force activity groups, only Supply Management uses an allowance method. Allowances are based on historical data from prior year accounts receivable balances. write-offs, and collection policy. Review of individual accounts receivable transferred to DFAS-DE/FYDG often reveals invalid Receivables that should have been reverse posted by the Standard Base Supply System as an issue without reimbursement, instead of a sale. See footnotes of the individual activity group for further details and explanation of data.

Note 6. Other Assets

A. Other Entity Assets:

(1) Federal (Intragovernmental)	
Other Assets	$335,029
Total	$335,029
(2) Non-Federal (Governmental)	
(a)_____	$0
(b)_____	0
(c)_____	0
Total	$0

B. Other Information:

Footnotes

Supply Management shows Other Entity Assets of $335,029. Reference their footnote for a breakdown and explanation of this amount. For all the Air Force activity groups Other Assets is not applicable.

C. Other Non-entity Assets:

(1) Federal (Intragovernmental)

(a)	$0
(b)	0
(c)	0
Total	$0

(2) Non-Federal (Governmental)

(a) Travel Advances	$3
(b) Advances to Contractors & Suppliers	1
Total	$4

D. Other Information:

Supply Management shows Other Non-entity Assets of $4. Reference their footnote for a breakdown and explanation of this amount For all the Air Force activity groupsOther Assets is not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers. Not applicable.

Note 8. Inventory, Net

	(1) Inventory Amount	(2) Allowance For Losses	(3) Inventory, Net	(4) Valuation Method
A. Inventory Categories:				
(1) Held for Current Sale	$21,995,176	($14,306,318)	$7,688,858	E
(2) Held in Reserve for Future Sale	0	0	0	
(3) Excess, Obsolete and Unserviceable	107,182	0	107,182	E
(4) Held for Repair	16,733.971	0	16,733,971	E
Total	$38,836,329	(14,306,318)	$24,530,011	

Footnotes

* Valuation method: A = FIFO, B = LIFO, C = Moving Average, D = Weighted Average, E = Other.
* Line A.(1) Column (1) includes $20.5 million for War Reserve Material.

B. Restriction On Inventory Use, Sale or Disposition:

Reference the Supply Management footnote for a breakdown and explanation.

C. Other Information:

Reference the Supply Management footnote for a breakdown and explanation of Inventory. For all the Air Force activity groups Inventory is not applicable.

Note 9. Work in Process

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
(1) In House	$252,347	Other
(2) Contractor	500,698	N/A
(3) Other Government Activities	0	
(4) Government Furnished Materials	0	
Total	$753,045	

Only Information Services and Depot Maintenance deal with Work in Process. Reference their footnotes for a breakdown and explanation of this area.

Note 10. Operating Materials and Supplies (OM&S), Net

	(1) OM&S Amount	(2) Allowance for Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
(1) Held for Use	$696,813	$0	$696,813	e
(2) Held in Reserve forFuture Use	0	0	0	n/a
(3) Excess, Obsolete and Unserviceable	0	0	0	n/a
Total	$696,813	$0	$696,813	

*Key Valuation Method

Footnotes

a	FIFO
b	LIFO
c	Moving Average
d	Weighted Average
e	Other

Only Information Services and Depot Maintenance deal with Operating Materials and Supplies (OM&S). Reference their footnotes for a breakdown and explanation of this area.

B. Restrictions on Operating Materials and Supplies: Not applicable.

C. Other Information:

Operating materials and supplies consist of spare parts, supplies and material intransit. Depot Maintenance and Information Services consume operating materials and supplies in their day-to-day operations.

Note 11. Stockpile Materials. Not applicable.

Note 12. Seized Property. Not applicable.

Note 13. Forfeited Property, Net. Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net. Not applicable.

Footnotes

Note 15. Property, Plant, and Equipment

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land			$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements	S/L	20	852,482	375,762	476,720
C. Military Equipment			13,589	0	13,589
D. ADP Software	S/L	5	5,654	1,280	4,374
E. Equipment	S/L	5&10	1,972,458	1,114,592	857,866
F. Assets Under Capital Lease			0	0	0
G. Other			0	0	0
H. Natural Resources			0	0	0
I. Construction-in-Progress			90,110	0	90,110
Total			$2,934,293	$1,491,634	$1,442,659

*Keys:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

J. Other Information:

Property, plant, and equipment which were capitalized by the DBOF on October 1, 1991, and which had preexisting depreciation schedules are depreciated according to those schedules. Capital assets acquired and placed in service on October 1, 1991, and after are depreciated according to the updated DBOF depreciation schedules which specifies 20 years for facility construction projects, 10 years for equipment (other than ADP), 5 years for ADP hardware and software, and other selected useful lives, as appropriate, for intangible assets.

Footnotes

The business areas record depreciation on buildings and equipment as required by DoD Comptroller memorandum of September 27, 1991, (DBOF Financial Policy) and other supplemental guidance.

Capitalization Threshold: Assets are capitalized according to an Office of Secretary of Defense (OSD) policy cost threshold of $100,000 for DWCF activities.

Property, Plant, & Equipment declined about $65 million between FY 1996 and FY 1997. The majority of the decrease falls to Depot Maintenance which had equipment losses totaling $58 million due to downsizing. SAF/FM requested approval from OUSD(C) to exclude $24,708 million of these losses from nonrecoverable operating results. OUSD(C) granted this request in memo dated Sep 15, 1997 and reported the amount in the annual operating budget AFDM-97-6. Supply Management contributed the remaining $7 million in decline due to an increase in Construction in Progress of $6.5 million and a substantial an increase in accumulated depreciation of ($13.5).

See the individual activity groups' footnotes for additional information.

Note 16. Debt. Not applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovermental			
(a) Deposit Fund Liabilities	$0	$3,181	$3,181
(b) Contingent Liabilities	0	96,607	96,607
(c) Liability for Property Furnished by Others	0	221,508	221,508
(d) Advances - Government	0	4,144	4,144
(e) Military Labor	0	316	316
(f) Unearned Revenue - Advances from Government Agencies and Funds		462,938	462,938
(g) Progress Billings to Others	0	533,857	533,857
Total	$0	$1,322,551	$1,322,551

Footnotes

	Noncurrent Liability	Current Liability	Total
2. Governmental			
(a) Accrued Expenses - Other	$0	$84,988	$84,988
(b) Unearned Revenue - Advances from Public	0	844	844
Total	$0	$85,832	$85,832

B. Other Information:

See the individual activity groups' footnotes for more specific information.

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

Note 18. Leases. Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

A. Pensions:

Air Force WCF's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS), while 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 activity groups finance a portion of pension benefits under these retirement systems, but do no disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS and DoD for MRS. However, Air Force WCF does report the revenues and expenses for these pensions (reference Notes 22 and 25).

B. Other Actuarial Liabilities:

Future Workers' Compensation (FWC) figures are provided by the Department of Labor. The liability for 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:

Footnotes

	1997
Year 1	6.24%
Year 2	5.82%
Year 3	5.60%
Year 4	5.45%
Year 5 and thereafter	5.40%

The Air Force Working Capital Fund liability for FWC benefits is $198,515.

Note 20. Net Position

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$30,571	$0	$0	$30,571
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	44,866,794	0	0	44,866,794
C. Cumulative Results of Operations	(19,034,770)	0	0	(19,034,770)
D. Other	0	0	0	0
E. Future Funding Requirements	(198,515)	0	0	(198,515)
F. Total	$25,664,080	$0	$0	$25,664,080

G. Other Information:

Equity consists of invested capital, cumulative results of operations, and unexpended appropriations. Increases to invested capital are recorded when capital assets are acquired (purchased or transferred in without reimbursement). Decreases occur as capital assets are depreciated, consumed in operation, or transferred to their agencies. The cumulative results of operations for the Air Force combined funds represent the excess of revenues over expenses since the inception of the business areas.

The future funding requirements of $198,515 equates to the amount of liability accrued for pensions. Use of this line was directed by DFAS-HQ.

See the individual activity groups' footnotes for more specific information.

Footnotes

Note 21. Taxes. Not applicable.

Note 22. Other Revenues and Financing Sources

	1997	1996
A. Other Revenues and Financing Sources:		
(1) Reimbursements	$187,068	$146,512
(2) Invested Capital Used	25,469	18,901
(3) AFWCF Pensions	149,107	0
Total	$361,644	$165,413

See the individual footnotes for additional information and specific source data.

Note 23. Program or Operating Expenses

	1997	1996
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$136,272	$111,220
(2) Travel and Transportation	173,926	167,890
(3) Rental, Communication and Utilities	889	847
(4) Printing and Reproduction	3,188	3,738
(5) Contractual Services	2,075,773	2,202,687
(6) Supplies and Materials	12,594	7,219
(7) Equipment not Capitalized	1,090	0
(8) Grants, Subsidies and Contributions	0	0
(9) Insurance Claims and Indemnities	0	0
(10) Other	0	0
(11) Total Expenses by Object Class	$2,403,732	$2,493,601

B. Other Information

The operating expenses pertain only to the Supply Management activity group.

Footnotes

Note 24. Cost of Goods and Services Sold

A. Cost of Services Sold		
(1) Beginning Work-in-Process	$762,333	
(2) Plus: Operating Expenses	4,694,154	
(3) Minus: Ending Work-in-Process	753,045	
(4) Minus: Completed Work for Activity Retention	0	
Cost of Services Sold		$4,703,442
B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):		
(1) Beginning Inventory - L.A.C.	$40,775,948	
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	11,646,875	
(3) Plus: Purchases at Cost	6,636,319	
(4) Plus: Customer Returns - Credit Given	346,609	
(5) Plus: DLR Exchange Credits	2,784,937	
(6) Less: Inventory Losses Realized	4,292,410	
(7) Less: Ending Inventory - L.A.C.	38,836,329	
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	14,306,318	
(9) Less: Equity Transfers of Inventory to Others	0	
(10) Plus: Equity Transfers of Inventory from Others	0	
(11) Equals: Cost of Goods Sold from Inventory		$10,074,517
C. Cost of Goods Sold-Intragovernmental Eliminations:		(3,674,959)
Cost of Goods Sold		$11,103,000

D. Other Information:

The Air Force Consolidated statements include eliminations of revenue and expenses as shown in paragraph C above.

Total Cost of Goods Sold shown here includes Intragovernmental of $10,978,492 and To the Public of $124,508.

Footnotes

Note 25. Other Expenses

	1997	1996
A. Other Expenses:		
(1) Inventory Losses or Adjustments	$4,292,410	($2,814,889)
(2) Losses on Dispositions of Assets	32,485	45,837
(3) AFWCF Pensions	149,107	0
Total	$4,474,002	($2,769,052)

B. Other Information

See the Supply Management, Component, and Depot Maintenance footnotes for additional information.

Note 26. Extraordinary Items

The only Extraordinary Item belongs to the Information Services activity group. Reference their footnotes for the explanation.

Note 27. Prior Period Adjustments

A. Prior Period Adjustments:	
(1) Supply Management	($738,772)
(2) Information Services	($6,142)
(3) Base Support	($156)
(4) Transportation	$11,355
(5) Depot Maintenance	(22,529)
Total	($756,244)

B. Other Information:

See the individual footnotes for the activity groups shown for specific information.

Footnotes

Note 28. Non-Operating Changes - (Transfers and Donations)

A. Increases:	1997	1996
(1) Transfers-In:		
(a) Transportation	$5,000	$0
(b) Depot Maintenance	83,509	0
(2) Unexpended Appropriations	30,571	0
(3) Donations Received	0	0
(4) Other Increases	26	4,408,916
(5) Total Increases	$119,106	$4,408,916
B. Decreases:		
(1) Transfers-Out:		
(a) Transportation	$0	($275,580)
(b) Supply Management	0	(94,975)
(c) Depot Maintenance	158,073	0
(d) Base Support	0	(3,450)
(2) Donations	0	0
(3) Other Decreases	239,610	206,199
(4) Total Decreases	$397,683	($167,806)
C. Net Non-Operating Changes (Transfers):	($278,577)	$4,576,722

D. Other Information:

Other Decreases include the Air Force Working Capital Fund liability for FWC benefits of $198,515.

See the individual activity group's footnotes for detailed explanations or additional source data.

Note 29. Intrafund Eliminations

Schedule A. Not applicable.

Footnotes

Schedule B

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Supply Management	Gxx	$187,074	$1,939,735	$0	$1,752,661
Information Services	Gxx	$0	$62,778	$0	$0
Depot Maintenance	Gxx	$72,922	$1,672,446	$0	$1,599,524
Total		$259,996	$3,674,959	$0	$3,352,185

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Supply Management	$102,510	$1,654,649	$0	$1,544,441
Depot Maintenance	$129,955	$1,349,302	$0	$1,164,953
Information Services	$0	$686	$0	$0
Transportation Services	$27,531	$670,322	$0	$642,791
Total	$259,996	$3,674,959	$0	$3,352,185

Schedule C

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	B/C/E/Fxx	$456,038	$7,723,860	$0	$7,267,822
Total		$456,038	$7,723,860	$0	$7,267,822

Footnotes

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Department of the Army	$6,356	$58,524	$0	$52,168
Department of the Navy	$22,844	$324,853	$0	$302,009
Department of the Air Force	$385,515	$7,144,753	$0	$6,759,238
Navy WCF	$0	$117	$0	$117
DLA WCF	$776	$155,273	$0	$154,497
DISA WCF	$0	$900	$0	$900
DFAS WCF	$0	$14,908	$0	$14,908
DeCA WCF	$135	$1,127	$0	$992
JLSC WCF	$0	$10,195	$0	$10,195
US TRANSCOM WCF	$0	$136	$0	$136
Other Defense Organizations	$40,412	$13,074	$0	($27,338)
Total	$456,038	$7,723,860	$0	$7,267,822

Schedule D

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	Fxx	$99,474	$1,103,599	n/a	$1,004,125
Total		$99,474	$1,103,599	n/a	$1,004,125

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Defense Security Assistance Agency	$96,788	$579,551	n/a	$482,763
NASA	$1,682	$42,742	n/a	$41,060
Office of Budget	$11	$5	n/a	($6)
Non-Federal Services	($11,869)	$142,796	n/a	$154,665
Other Federal Government	$0	$81,194	n/a	$81,194
Other Non-Defense Sources	$12,862	$257,311	n/a	$244,449
Total	$99,474	$1,103,599	n/a	$1,004,125

Footnotes

Intrafund eliminations between the Air Force-managed activity groups and other DoD managed funds are made only for those activities that, prior to FY 1992, were accounted for by the Air Force, e.g., Air Force Commissary operations.

Note 30. Contingencies

For all Air Force activity groups except Supply Management. Contingencies are not applicable. Reference the Supply Management footnotes for specific information on that activity group's Contingencies.

Note 31. Other Disclosures

A. Unmatched Disbursements and Negative Unliquidated Obligations

DWCF Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$103,508	$72,587	($30,952)	-30%
Negative Unliquidated Obligations*	23,853	40,582	16,729	70%
Aged In-Transit Disbursements	0	45,249	45,249	100%
Totals	$127,361	$158,418	$61,978	24%

*Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding.

B. Statement of Operations:

Total Revenues, line 8, declined from the prior fiscal year $3.4 billion or 30 percent. The decrease is made up of:

Increase in Eliminations	($2.678B)
Decrease in SMAG & DMAG Revenue	(900M)
Increase in ISAG Revenue	175M
Total Change	($3,403B)

An increase in eliminations from ($3,448B) in FY 1996 to ($6,126B) in FY 1997 contributed the most to the decline in revenue. Eliminations are subtracted from the total amount of aggregate revenue recorded by all activities. Thus, the aggregate revenue of $16 billion was reduced to $10 billion when eliminations were included.

Total Expenses, line 15, increased from the prior fiscal year $3.8 billion or 30 percent. The increase is made up of:

Footnotes

Increase in Other Expenses (SMAG)	$7,106B
Decrease in other (ISAG, DMAG, & SMAG))	(571M)
Decrease in Eliminations	(2,678B)
Total Change	$3,857B

The major contributing factors to this increase was inventory revaluation by Supply Management and the increase in elimination expenses. Inventory revaluation by Supply Management caused Other Expenses to increase from FY 1996 by $7,106 million. (Reference Supply Management's footnotes Note 25.) The DOD SGL used for inventory shrinkage and deterioration is 7291.2 which is considered an other expense. Eliminations also affect cost of goods/services sold. Like revenue, elimination expenses are subtracted from the aggregate cost of goods/services sold. Thus, the total the aggregate costs of $15 billion was reduced to $9 billion when eliminations are included.

Net Position, line 24, shows a decrease in equity from the previous fiscal year of $5.8 billion. As a whole, revenue for Air Force activity groups declined in FY 1997. On the other hand, expenses increased. (Reference previous 2 paragraphs for specifics on revenues and expenses.) The difference between revenue and expenses netted to a shortage of $5 billion. The remainder of the equity decrease can be attributed to extraordinary items (reference footnote 26), prior period adjustments (reference footnote 27), and other nonoperating changes (reference footnote 28). All of the factors noted in these last three paragraphs contributed to the aggregate decrease in the equity of the Air Force Working Capital Funds.

It must be noted that the values shown lines 11 and 12 for depreciation and bad debts reflect only Supply Management. This is because the other Air Force activity groups work under the full absorption principal of accounting which includes depreciation and bad debts in the cost of services sold. Amounts for depreciation and bad debts were shown in FY 1996 for these other activity groups when, in fact, they should not have been. This presentation deviated for the principal being followed and the data presented on the AR(M)1307. Therefore, to more properly reflect both the principal and the AR(M)1307, depreciation and bad debts were included in cost of services sold rather than separately identified on lines 11 and 12.

C. Cash Flow Adjustments:

The Cash Flow Statement contains no prescribed footnotes. Footnote 31 is used to disclose Other Adjustments, line 9, and any other significant explanations relating to this statement. See individual activity groups' footnotes for an explanation of line 9 adjustments and any additional disclosures.

We note that Accounts Receivables line 3, changed from a positive figure in FY 1997 to a negative in FY 1998. This swing is due to eliminations. In preparing eliminations for this fiscal year, we noted that the prior fiscal year eliminations included both FY 1996 and FY 1995. This error would have caused the decrease in receivables for FY 1996 to be overstated. On the other

Footnotes

hand, eliminations for FY 1997 have been properly stated as a single year and thus are reflective of an increase in receivables.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

SUPPLY MANAGEMENT PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($503,472)	($62,059)
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	509,083	434,365
(4) Interest Receivable		
(5) Advances and Prepayments	4,663	658
(6) Other Federal (Intragovernmental) (Note 6)	335,029	858,338
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	82,058	74,799
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments	108,227	124,115
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)	37	1
d. Inventory, Net (Note 8)	24,530,011	29,129,073
e. Work in Process (Note 9)		
f. Operating Materials/Supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	154,766	161,737
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$25,220,402	$30,721,027
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)	4	
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets	$4	
3. Total Assets	$25,220,406	$30,721,027
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$26,685	$406
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	317,138	319,495
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	412,506	384,049
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	888	442
(b) Annual Accrued Leave	10,916	9,241
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Covered by Budgetary Resources:	$768,133	$713,633

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)		
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources		
6. Total Liabilities	$768,133	$713,633
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$30,571	
b. Invested Capital	43,190,916	43,218,616
c. Cumulative Results of Operations	(18,769,214)	(13,211,222)
d. Other		
e. Future Funding Requirements		
f. Total Net Position	$24,452,273	$30,007,394
8. Total Liabilities and Net Position	$25,220,406	$30,721,027

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public	145,608	142,501
b. Intragovernmental	11,636,204	12,499,733
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	186,874	146,426
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$11,968,686	$12,788,660
EXPENSES		
9. Program or Operating Expenses (Note 23)	$2,403,732	$2,493,601
10. Cost of Goods Sold (Note 24)		
a. To the Public	124,508	142,737
b. Intragovernmental	9,950,009	10,785,939
11. Depreciation and Amortization	13,500	13,903
12. Bad Debts and Writeoffs	(1,893)	4,772
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other	10	25
14. Other Expenses (Note 25)	4,292,410	(2,814,889)
15. Total Expenses	$16,782,276	$10,626,088
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($4,813,590)	$2,162,572
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,813,590)	$2,162,572

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$30,007,394	$28,492,531
20. Adjustments (Note 27)	(738,772)	(4,642,829)
21. Net Position, Beginning Balance, as Restated	$29,268,622	$23,849,702
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(4,813,590)	2,162,572
23. Plus (Minus) Non Operating Changes (Note 28)	(2,759)	3,995,120
24. Net Position, Ending Balance	$24,452,273	$30,007,394

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($4,813,590)	$2,162,572
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	(81,977)	56,570
4. Decrease (Increase) in Other Assets	5,134,251	(2,480,411)
5. Increase (Decrease) in Accounts Payable	54,738	89,486
6. Increase (Decrease) in Other Liabilities	(238)	16,287
7. Depreciation and Amortization	13,500	13,903
8. Other Unfunded Expenses		
9. Other Adjustments	(744,402)	(10,404)
10. Total Adjustments	$4,375,872	($2,314,569)
11. Net Cash Provided (Used) by Operating Activities	($437,718)	($151,997)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment	(6,529)	(15,030)
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities	($6,529)	($15,030)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$30,571	
21. Add:		
a. Restorations		
b. Transfers of Cash from Others	27,500	1,689,546
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others	55,200	2,326,850
23. Net Appropriations	$2,871	($637,304)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Supply Management
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES, Continued	1997	1996
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities	$2,871	($637,304)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($441,376)	($804,331)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(62,059)	742,272
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($503,435)	($62,059)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$10	$25

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

SUPPLY MANAGEMENT FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

DEPARTMENT OF THE AIR FORCE
DEFENSE WORKING CAPITAL FUND
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position, results of operations, and the cash flow of the Supply Management Activity Group (SMAG) as required by the Chief Financial Officers (CFOs) Act and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements. These statements are different from the financial reports that are used to monitor and control the activity group's use of budgetary resources.

B. Reporting Entity:

The Air Force Stock Funds were established within the DoD under 10 U.S.C. 2208, as described in DoD Directive 7420.13 and DoD Financial Management Regulation 7000-14-R, to finance inventories of supplies. Most inventories of supplies are financed by use of a stock fund. Exceptions include an item financed with a procurement appropriation or when financing by other means has been deemed more economical and efficient. A stock fund operates as a revolving fund by acquiring inventories with funds received from prior sales to customers. Initially a corpus was established which consisted of appropriated funds and inventories capitalized from other sources.

There are now nine active business divisions in the SMAG. They are: Systems Support Division (SSD); Repairable Support Division (RSD); General Support Division (GSD); Aviation, Ground, Missile Fuels Division; Medical/Dental Division; Academy Cadet Store Division; Cost of Operations Division (COD); Cost of Operations Division (COD) for Fuels; (6K), and Troop Support Division.

In general, the activity group consists of all the resources and financial operations of the former divisions of the Defense Business Operations Fund. Also, this business area includes repairable weapon systems components that were not managed under the former Air Force Stock Fund prior to Fiscal Year 1992. Includes the following activities or divisions:

Footnotes

(1) Systems Support Division (SSD)

This business activity accounts for weapon systems spares and parts. SSD includes items in support of Air Force systems and procured through the Air Force inventory control points (ICPs) (five air logistics centers) for further distribution or use.

(2) Repairable Support Division (RSD):

This business activity is responsible for financial management, control, and distribution of depot level repairables. RSD includes depot level repairable items which are procured through the Air Force ICPs for further distribution or use. RSD also funds for the repair of these items.

(3) General Support Division (GSD):

This business activity accounts for office supplies, parts and supplies other than medical and weapon systems.

(4) Aviation, Ground, Missile Fuels Division:

This business activity accounts for jet fuels, aviation fuels, gasoline, diesel fuels. heating fuels, and missile fuels.

(5) Medical/Dental Division:

This business activity accounts for medical/dental equipment and supplies.

(6) Academy Cadet Store Division:

This activity includes clothing, bedding, and supplies provided to the Air Force Cadets.

(7) Cost of Operations Division (COD):

This division consists of inventory control point (ICPs) functions and all other overhead costs necessary to capture the total costs of supporting the Systems and Repairable Divisions within the SMAG. COD operating funds are generated through surcharges applied to SSD and RSD sales.

(8) Cost of Operations Division (COD) for Fuels:

The Cost of Operations Division (COD) for the Fuels Division of the Working Capital Fund was established effective October 1, 1996, under authority of Program Budget Decision (PBD) 424. Under the COD concept of operations, the fuels stock fund

manager at SA-ALC/SFR, Kelly AFB, is authorized to access a surcharge to cover their cost of doing business (travel, payroll, supplies, etc.).

(9) Troop Support Division:

This business activity accounts for food items provided to dining halls and other activities at bases that prepare meals, for example, hospitals and child care facilities. It also includes the meals-ready-to-eat (MREs).

All individual business activities within the SMAG are managed without apportionment, permitting each activity to operate under separate unit cost goals, inventory objectives, and capital budget programs. Apportionment is retained at DFAS-HQ, Corporate level.

C. Budgets and Budgetary Accounting:

Operations of the SMAG are based on the policies and procedures that have been in effect for the stock and industrial funds. However, a number of management, accounting, policy, and procedural changes were implemented. These include:

(1) Funding Authority:

Prior to FY 1992, revolving fund activities were not issued funding documents. Activities now receive their obligational authority for customer orders from the Air Force Deputy Assistant Secretary, Budget (SAF/FMB). The total costs that can be incurred are a function of the cost goals applied to the actual customer funded work load.

(2) Minor Construction Funding:

Policy and procedures have been changed to fund minor construction projects costing $25,000 or more but less than $300,000 through a separate section of the capital budget and depreciate them over a 20 year period.

(3) Software Development Costs:

Policy and procedures have been changed to fund the development costs of new software meeting the time and cost thresholds (two years or more and $50,000 or more) to the capital budget. Software releases are amortized after deployment.

(4) Capital Budgeting:

Business area budgets are segregated into operating and capital budgets. Any investment in equipment, software, minor construction, and other management improvements costing $100,000 or more with a useful life of two years or greater are funded through the capital budget and its costs depreciated/amortized over the relevant life cycle.

Footnotes

(5) Asset Capitalization and Depreciation:

The assets of the industrial and stock funds have been transferred to the Fund. The capital assets, excluding land and weapon systems, which exceed a unit cost of $100,000 or more are subject to depreciation. In addition, capital assets previously capitalized using the $5,000 and $15,000 threshold will continue to be depreciated if depreciation was being recorded prior to the increase to the $100,000 threshold.

(6) Pricing Rates:

All Air Force business areas in the Activity are expected to set their pricing rates based upon full cost recovery. This will ensure that cost reductions made by an activity will be passed on to the customers.

Supply Management and Distribution Depot
Sales, Costs of Sales and Expenses,
and Net Operating Results by Division
(in thousands)

Division	Sales	Cost of Sales and Expenses	Net Operating Results
Army	$0	$0	$0
Navy	0	0	0
Air Force	11,968,686	16,782,276	(4,813.590)
Defense Agencies	0	0	0
Total	$11,968,686	$16,782,276	($4,813.590)

D. Basis of Accounting:

These financial statements are presented in accordance with the Financial Management Regulation which prescribes that the accrual basis of accounting should be used by DoD Components. The cash basis of accounting may be followed if the reported activity and balances are not materially significant as opposed to the accrual basis.

Except for the real property maintenance projects, revenue is recognized at the point of sale under constructive delivery terms (normally dropped from inventory when an item is released from inventory or delivered to the customer). Foreign Military Sales (FMS) transactions additionally require proof of shipment before revenue is recognized.

Footnotes

Generally, Supply Management revenue consists of sales at standard prices less sales return. Sales of RSD items are at exchange price or standard. The Medical-Dental Division and the Air Force Academy Store add surcharges to their billings rather than include a surcharge in the standard price. Intra-Division Supply Management Sales have been eliminated. The leave policy is explained in Note 19. The accrual basis of accounting is used for recording revenue and expenses as required by the DoD Accounting Manual.

(1) Federal Managers' Financial Integrity Act (FMFIA) Discrepancies:

Several FMFIA and audit discrepancies have been identified. The FMFIA discrepancies were presented in the Chief Financial Officers 5-year Plan and FMFIA Statements of Assurance prepared for DFAS and the Air Force. Audit discrepancies were identified in the audit reports of the General Accounting Office, DoD Inspector General, and Air Force Audit Agency. Aggressive actions are being taken by Air Force and DFAS to resolve those discrepancies.

(2) Reporting of Financial Data and Preparation of Financial Statements:

Financial statements are prepared by DFAS-DE using data provided through systems owned by both DFAS-DE and SAF/FM. Except for the COD and COD for Fuels, activities submit reports direct to the Defense Finance and Accounting Service - Denver Center for the Supply Management Activity Group. The Departmental On-line Accounting and Reporting System (DOLARS) maintained at the Defense Finance and Accounting Service - Denver Center is used to consolidate and prepare Supply Management reports.

(3) Air Force General Ledger:

The Air Force uses several service unique general ledger structures plus data converted from the Defense Business Management System (DBMS). The financial statements depicted are derived from supply, maintenance and accounting records utilizing the Air Force service and DBMS unique general ledger structure. The business area's general ledgers accounts are "cross walked" to the DoD chart of accounts to produce the financial statements.

E. Revenue and Other Financing Sources:

Except for the real property maintenance projects, revenue is recognized at the point of sale under constructive delivery terms (normally dropped from inventory when an item is released from inventory or delivered to the customer). Foreign Military Sales (FMS) transactions additionally require proof of shipment before revenue is recognized.

Footnotes

F. Accounting for Intra-governmental Activities:

Supply Management civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally employees and personnel covered by FERS and MRS also have varying coverage under Social Security. Reporting pension benefits under these retirement systems is the responsibility of Office of Personnel Management for CSRS and FERS and the Department of Defense for MRS. Total contributions to these retirement plans and Social Security are not included in this activity's financial statements. Instead, they are disclosed in the Department's consolidated statements.

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

Fund Balances with Treasury are maintained at the Air Force DWCF Corporate business area. (Reference Note 2).

H. Foreign Currency: Not applicable.

I. Accounts Receivables:

(in thousands)

Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$467,832	($99)	$467,733
Public	82,694	(2,451)	80,243
Refunds	42,719	0	42,719
Claims	446	0	446
Total	$593,691	($2,550)	$591,141

Accounts Receivables balance is $591,141. (Reference Note 5).

J. Loans Receivable: Not applicable.

K. Inventory:

An inventory worksheet is prepared monthly for each fund code within Supply Management Activity Group. This worksheet is used to calculate the Realization of the Allowances for (Gain) or Loss on Inventories.

L. Investments in U.S. Government Securities: Not applicable.

Footnotes

M. Property and Equipment:

The Cost of Operations Division (COD) has a balance of $4,352 for Construction in Progress and $150,414 for Equipment, totalling $154,766. (Reference Note 15).

N. Prepaid and Deferred Charges: Not applicable.

O. Leases: Not applicable.

P. Contingencies: Not applicable.

Q. Accrued Leave:

The Cost of Operations Division (COD) has a balance of $10,283 and Cost of Operations (COD) for Fuels has a balance of $633.

R. Equity:

The Medical/Dental Division has an Unexpended Appropriation balance of $30,571. The Invested Capital balance stands at $43,190,916. The Cumulative Operating Results is ($18,769,214). This leaves a Net Position of $24,452,273.

S. Aircraft/Ship Crashes: Not applicable.

T. Treaties for Use of Foreign Bases: Not applicable.

U. Comparative Data:

Comparative data are presented for FY 1997 and FY 1996.

V. Undelivered Orders:

Undelivered Orders as reported on the SF133, Report on Budget Execution, amounted to $3,297,087.

Footnotes

NOTE 2. Fund Balances with Treasury:

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appro-priated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	$44,563	$0	$0	$44,563
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	1,321,831	0	0	1,321,831
Unfunded Contract Authority	0	(1,869,867)	0	0	(1,869,867)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	($503,473)	$0	$0	($503,473)

B. Other Information:

Fund Balances with Treasury are maintained at the Air Force DWCF Corporate business area.. The Unfunded Contract Authority includes Budgetary Authority Appropriations. Line 1C, ($605,787) and Contract Authority prior year of ($1,264,080) of the SF133 report.

The Treasury Balance, as reported on the AR(M)1307, breaks down as:

Funds Collected - Operating Program	$8,391,894
Funds Collected - Capital Program	11,033
Funds Disbursed - Operating Program	(8,842,933)
Funds Disbursed - Capital Program	(4,277)
Funds with Treasury - Operating Program	(59,189)
Funds with Treasury - Capital Program	(0)
Treasury Balance	($503,472)

Footnotes

Funds disbursed exceeded funds collected for Supply Management by $444,283. Funds with Treasury - Operating Program includes Appropriations, Medical/Dental Division $30,571, Transfer of Cash to Others, Cost of Operation Division to the Joint Logistics Support Center ($55,200), and Cash transfer from Others, System Support Division $27,500, and prior year cash ($62,059). The cash transfer in of $27.5 million which represented compensation for the consummable inventory transfers.

All business divisions in the SMAG have a positive cash balance except the Cost of Operations Division (COD). All business areas cash balance without COD is $4,026,749, COD's balance is ($4,530,221) leaving a balance of ($503,472).

NOTE 3. Cash, Foreign Currency and Other Monetary Assets:

		Entity Assets		Non-Entity Assets
A. Cash		$37		$0
B. Foreign Currency		0		0
C. Other Monetary Assets:				
(1) Gold	0		0	
(2) Special Drawing Rights	0		0	
(3) US Reserves in the International Monetary Fund				
(4) Other	0		0	
(5) Total Other Monetary Assets	0	0	0	0
D. Total Cash, Foreign Currency and Other Monetary Assets		$37		$0

E. Other Information:

All of the above categories are part of the Disbursing Officer's accountability, which are included in the Non-DWCF General Fund financial statements. The above amount represents checks received after the end of month but before the accounting reports are finalized.

NOTE 4. Investments: Not Applicable.

Footnotes

NOTE 5. Accounts Receivable:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$509,182	($99)		$509,083
Governmental	84,509	(2,451)		82,058
B. Non-Entity Receivables:				
Intragovernmental	$0	$0		$0
Governmental	0	0		0

C. Other Information:

Allowances are based on historical data from prior year accounts receivable balances, write-offs, and collection policy. Intragovernmental entity receivables are $509,083 after reduction for undistributed collections of $23,709.

Foreign Military Sales Deliveries Suspense. During FY 1997, these deliveries, which are not billable until the items are accepted by the foreign government, were transferred from Accounts Receivable to Other Intra government Assets.

NOTE 6. Other Assets:

A. Other Entity Assets:

(1) Federal (Intragovernmental)

(a) Other Assets	$335,029
(b)	0
(c)	0
Total	$335,029

Footnotes

(2) Non-Federal (Governmental)

(a)	$0
(b)	0
(c)	0
Total	$0

B. Other Information:

Other Assets include the following items:

(a) FMS Deliveries. Suspense.	$241,297
(b) FMS Over Deliveries	
(c) Vendor Returns Pending Credit	61,574
(d) Other	32,158
Total	$335,029

Other Assets decreased $523.3 million over FY 1996. The majority of these assets are reported by 5 Air Logistics Centers as sales of Reparable Support Division (RSD) assets to foreign governments. These deliveries cannot be billed until missing details are supplied.

Vendor Returns Pending credits represents supplies under the Materiel Returns Program for credit.

C. Other Non-entity Assets:

(1) Federal (Intragovernmental)

(a)	$0
(b)	0
(c)	0
Total	$0

(2) Non-Federal (Governmental)

(a) Travel Advances	$3
(b) Advances to Contractors & Suppliers	1
(c)	0
Total	$4

Footnotes

NOTE 7. Loans and Loan Guarantees, Non Federal Borrowers: Not applicable.

NOTE 8. Inventory, Net:

	(1) Inventory Amount	(2) Allowance for Losses
A. Inventory Categories		
(1) Held for Current Sale	$ 21,995,176	($14,306,318)
(2) Held in Reserve for Future Sale		
(3) Excess, Obsolete, and Unserviceable	107,182	
(4) Held for Repair	16,733,971	
Total	$ 38,836,329	($14,306,318)

	(3) Inventory Net	(4) Valuation Method*
A. Inventory Categories		
(1) Held for Current Sale	$7,688,858	E
(2) Held in Reserve for Future Sale		
(3) Excess, Obsolete, and Unserviceable	107,182	E
(4) Held for Repair	16,733,971	E
Total	$ 24,530,011	

* Valuation method: A = FIFO, B = LIFO, C = Moving Average, D = Weighted Average, E = Other.
* Line A.(1) Column (1) includes $20.5 million for War Reserve Material.

B. Restriction On Inventory Use, Sale or Disposition:

Normally all items in the inventory are sold. Under rare situations, issues without reimbursement are made when authorized by DoD directives.

Footnotes

C. Other Information:

Inventory values reported on accounting statements are adjusted to Latest Acquisition Cost. Individual stock record items are valued in the supply systems at standard prices established by the Air Force or the Defense Logistics Agency (DLA) as required by DoD accounting directives. Generally, these values are based on prices paid for recently acquired items plus appropriate surcharges, and inflation factors for certain long lead items.

The Supply Management activities continue to maintain day-to-day inventory records at standard price, the DoD Comptroller directed that the FY 1991 end-of-year and all subsequent financial statements reflect the "Latest Acquisition Cost" for inventory valuation. This adjustment is made monthly at the departmental level using composite rate factors provided through OSD by the supplying Military Service and DLA. The factors are applied to eliminate surcharges and inflation factors from the Supply Management ending inventory. Also the values are adjusted downward for unserviceable, anticipated excess, and anticipated condemnation items.

The unserviceable inventories are not valued at standard price. They are valued at forecast acquisition cost less repair cost. Unserviceable inventories applies to the Repairable Services Division. This is the only activity which carries depot level repairable items.

The FY 97 value for War Reserve Material for Troop Support Division is $20.5 million.

NOTE 9. Work in Process: Not applicable.

NOTE 10. Operating Materials and Supplies (OM&S), Net: Not applicable.

NOTE 11. Stockpile Materials: Not applicable.

NOTE 12. Seized Property: Not applicable.

NOTE 13. Forfeited Property: Not applicable.

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable.

Footnotes

NOTE 15. Property, Plant and Equipment, Net:

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life
A. Land		
B. Structures, Facilities, & Leasehold Improvements	S/L	20
C. Military Equipment		
D. ADP Software	S/L	5
E. Equipment	S/L	5&10
F. Assets Under Capital Lease		
G. Other		
H. Natural Resources		
I. Construction-in-Progress		
Total		

Classes of Fixed Assets	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land	$0	$0	$0
B. Structures,Facilities, & Leasehold Improvements	0	0	0
C. Military Equipment	0	0	0
D. ADP Software	0	0	0
E. Equipment	243,413	(92,999)	150,414
F. Assets Under Capital Lease			
G. Other	0	0	0
H. Natural Resources	0	0	0
I. Construction-in-Progress	4,352	0	4.352
Total	247,765	(92,999)	154,766

Footnotes

*Keys:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

J. Other Information:

* Class E assets . include equipment, ADP hardware, and general purpose vehicles. See consolidated footnotes for additional disclosures.

NOTE 16. Debt: Not applicable.

NOTE 17. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovermental			
(a) Deposit Fund Liabilities	$0	3,181	3,181
(b) Contingent Liabilities	0	92,449	92,449
(c) Liability for Property Furnished by Others	0	221,508	221,508
Total	$0	$317,138	$317,138

	Noncurrent Liability	Current Liability	Total
2. Governmental			
(a)_____	$0	$0	$0
(b)_____	0	0	0
(c)_____	0	0	0
Total	$0	0	0

B. Other Information:

Footnotes

(1) Accrued liabilities consist of Supply Management liabilities of $78.9 million for foreign government equity in additional inventory level maintained for foreign military sales.

(2) Equipment furnished by others in the amount of $221.5 million consists of equipment capitalized in the Cost of Operations Division that was originally purchased from appropriated funds. Title to the property has not officially been transferred to the Supply Management business area.

NOTE 18. Leases: Not applicable.

NOTE 19. Pensions and Other Actuarial Liabilities:

The SMAG area's civilian employees participate in the Civil Service Retirement System (CSRS), Federal Employee Retirement System (FERS), and Thrift Savings Plan (TSP) while 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 business areas finance a portion of pension benefits under these retirement systems but do not disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS, FERS, and TSP and DoD for MRS.

Footnotes

NOTE 20. Net Position:

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$30,571	$0	$0	$30,571
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	43,190,916	0	0	43,190,916
C. Cumulative Results of Operations	(18,769,214)	0	0	(18,769,214)
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	$24,452,273	$0	$0	$24,452,273

G. Other Information:

(1) Unexpended Appropriations:

Unexpended appropriations are not accounted for at the component level.

(2) Invested Capital:

A breakout of this account is furnished as follows:

(a) Assets Capitalized	$43,905,469
(b) Liabilities Assumed	(686,853)
(c) Cash Transfers	(27,700)
(d) Property Transfers (in)	0
Total	$43,190,916

NOTE 21. Taxes: Not applicable.

Footnotes

NOTE 22. Other Revenues and Financing Sources:

	1997	1996
A. Other Revenues and Financing Sources:		
(1) Reimbursements	$186,874	$146,427
(2)	0	0
(3)	0	0
Total	$186,874	$146,427

B. Other Information:

Reimbursements are "material returns with credit received."

NOTE 23. Program or Operating Expenses:

	1997	1996
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$136,272	$111,220
(2) Travel and Transportation	173,926	167,890
(3) Rental, Communication and Utilities	889	847
(4) Printing and Reproduction	3,188	3,738
(5) Contractual Services	2,075,773	2,202,687
(6) Supplies and Materials	12,594	7,219
(7) Equipment not Capitalized	1,090	0
(8) Grants, Subsidies and Contributions	0	0
(9) Insurance Claims and Indemnities	0	0
(10) Other (describe):		
(a)	0	0
(b)	0	0
(c)	0	0
(11) Total Expenses by Object Class	$2,403,732	$2,493,601

The AR(M)1307 also includes $10 for Other Interest Expense.

Footnotes

NOTE 24. Cost of Goods or Services Sold:

A. Cost of Services Sold: Not applicable.

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

(1). Beginning Inventory - LAC	40,775,948
(2). Less: Beginning Allowances for Unrealized Holding Gains (Losses)	(11,646,875)
(3) Plus: Purchases at Cost	6,636,319
(4) Plus: Customer Returns - Credit Given	346,609
(5) Plus: DLR Exchange Credits	2,784,937
(6) Less: Inventory Losses Realized	(4,292,410)
(7) Less: Ending Inventory - LAC	(38,336,329)
(8) Plus: Ending Allowances for Unrealized Holding Gains (Losses)	14,306,318
(9) Less: Equity Transfers of Inventory to Others	0
(10) Plus: Equity Transfers of Inventory from Others	0
(11) Equals: Cost of Goods Sold from Inventory	$10,074,517

Statement of Operations and Changes in Net Position, line 2, (Revenues from Sales of Goods and Services) does not equal line 10, (Cost of Goods Sold) due to recognizing the unrealized holding gains and loses identified on the Inventory Worksheet prepared for Allowances for (Gain) or Loss on Inventories.

C. Cost of Goods Sold from Inventory (using Historical Cost): Not applicable.

NOTE 25. Other Expenses:

	1997	1996
A. Other Expenses:		
(1) Inventory Losses or Adjustments (DOD GLA 7291.2 Inventory Shrinkage/Deteriorization)	$4,292,410	($2,814,889)
Total	$4,292,410	($2,814,889)

Footnotes

B. Other Information:

Discussions are in progress by OUSD and DFAS-HQ to review proposed changes to the Inventory Revaluation process, including the "Cost of Goods Sold" computation. Inventory loses or adjustments are identified as follows:

(1) Potential excess material ($802,947).

(2) "Shipments to Disposal" $5,095,357.

NOTE 26. Extraordinary Items: Not applicable.

NOTE 27. Prior Period Adjustments:

A. Prior Period Adjustments:

(1) Reparable Support Division Adjustment	(738,772)
Total	($738,772)

B. Other Information:

Reparable Support Division (RSD) had a prior period adjustment of $738.7 million for Air Force Foreign Military Sales Write-off of RSD transactions. The adjustment was made to bring the account closer to the proper value.

Footnotes

NOTE 28. Non Operating Changes - (Transfers and Donations):

A. Increases:	1997	1996
(1) Transfers-In:		
(a) Cash Transfer	$27,500	$0
(b)	0	0
(c)	0	0
(2) Unexpended Appropriations	30,571	0
(3) Donations Received	0	0
(4) Other Increases	0	3,900,143
(5) Total Increases	$58,071	$3,900,143

B. Decreases:	1997	1996
(1) Transfers-Out:		
(a) Cash Transfer	($55,200)	$0
(b) To Gov't Agencies w/o Reimbursement	0	94,977
(c)	0	0
(2) Donations	0	0
(3) Other Decreases	(5,630)	0
(4) Total Decreases	($60,830)	$94,977
C. Net Non-Operating Changes (Transfers):	($2,759)	$3,995,120

D. Other Information:

Item A.(1)(a) is the Consumable Inventory Transfer for Systems Support Division. Item A.(2) is the Unexpended Appropriation for the Medical/Dental Division. Item B.(1)(a) is the cash transfer from the Cost of Operations Divison to the Joint Logistics Systems Center. Item B.(3) is a prior year adjustment for the Medical/Dental Division.

NOTE 29. Intrafund Eliminations:

Intrafund eliminations relative to the Air Force are accounted for in the consolidated report.

Schedule A: Not applicable.

Footnotes

Schedule B:

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Supply Management	Gxx	$187,074	$1,939,735	$0	$1,752,661
Total		$187,074	$1,939,735	$0	$1,752,661

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disburse-ments
Supply Management	$30,978	$3,871	$0	($27,107)
Depot Maintenance	$129,955	$1,294,908	$0	$1,164,953
Transportation Services	$26,141	$640,956	$0	$614,815
Total	$187,074	$1,939,735	$0	$1,752,661

Footnotes

Schedule C:

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	B/C/E/Fxx	$652,587	$5,303,950	$0	$4,651,363
Total		$652,587	$5,303,950	$0	$4,651,363

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disburse-ments
Department of the Army	$5,842	$41,171	$0	$35,329
Department of the Navy	$16,427	$184,755	$0	$168,328
Department of the Air Force	$594,616	$4,922,556	$0	$4,327,940
DLA WCF	$776	$150,334	$0	$149,558
DeCA WCF	$135	$1,056	$0	$921
Other Defense Organizations	$34,791	$4,078	$0	($30,713)
Total	$652,587	$5,303,950	$0	$4,651,363

Footnotes

Schedule D

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	Fxx	$558,353	$723,252	n/a	$164,899
Total		$558,353	$723,252	$0	$164,899

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disburse-ments
NASA	$1,682	$42,742	n/a	$41,060
FMS	$567,152	$503,403	n/a	($63,749)
Other Non-Defense Accounts	$1,377	$34,306	n/a	$32,929
Non-Federal Services	$(11,869)	$142,796	n/a	$154,665
Office of Budget	$11	$5	n/a	($6)
Total	$558,353	$723,252	$0	$164,899

NOTE 30. Contingencies:

A. Undelivered Orders Outstanding (UOO):

Supply Management has recorded $3.9 billion in UOO. Last year's footnote money amount was incorrect. The amount of $4.9 million was reported. The correct amount is $4.9 billion.

B. Customer Orders Accepted:

Supply Management has recorded $1.7 billion in obligated due outs. Obligated due outs represent customer requisitions which are back ordered by the Supply wholesale and retail outlets. Customer funds are obligated since back order releases will be made automatically. These customer orders are covered by requisitions to the supply source in the item record. Last year's footnote money amount was incorrect. The amount of $9.4 million was reported. The correct amount is $2.0 billion.

Footnotes

NOTE 31. Other Disclosures:

A. Unmatched Disbursements and Negative Unliquidated Obligations:

Supply Management DBOF Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$55,147	$3,052	($52,095)	(94%)
Negative Unliquidated Obligations*	10,101	26,644	16,543	163%
Aged In-Transit Disbursements	0	45,249	45,249	Not reported last Year
Totals	$65,248	$74,945	$9,697	69%

*Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding. DFAS and customer making concerted effort to reduce problem disbursements.

B. Statement of Operations and Changes in Net Position:

Bad Debts and Writeoffs, line 12 consists of adjustments to the Allowance for Loss on Accounts Receivable and Other Expense - Bad Debts Accounts Receivable. The Allowance for Loss on Accounts Receivable was overstated.

C. Statement of Cash Flow:

Other Adjustments, line 9 consists of (1) prior period adjustment of $738.8 million for Air Force Foreign Military Sales Write-off of Reparable Support Division transactions. and an adjustment of $5.6 million for Medical/Dental Division.

Footnotes

D. Other Information:

The following sections/lines on the CFO do not equate to the AR(M)1307 based on a $56,812 adjustment for Inventory Losses Realized.

	CFO	AR(M)1307	Diff
Statement of Financial Position:			
Line 1.a.(6) - Other Federal	$335,029	$391,841	($56,812)
Line 7.c. Cumulative Results of Operations	(18,769,214)	(18,712,402)	(56,812)
Statement of Operations and Changes in Net Position:			
Line 10a./10b - Cost of Goods Sold	10,074,517	10,017,705	56,812
Statement of Cash Flows:			
Line 4 - Decrease (Increase) in Other Assets	5,134,250	5,071,538	62,712
Line 6 - Increase (Decrease) in Other Liabilities	(238)	(867)	629
Line 13 - Purchase of Property, Plant & Equipment	(6,529)	0	(6,529)
Total	5,127,483	5,070,671	56,812

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

DEPOT MAINTENANCE PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$432,209	$183,022
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	270,411	413,910
(4) Interest Receivable		
(5) Advances and Prepayments	1,259	6,875
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	24,998	18,446
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments	35,454	37,677
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work in Process (Note 9)	751,580	762,333
f. Operating Materials/Supplies, Net (Note 10)	696,779	681,672
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	1,247,307	1,305,067
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$3,459,997	$3,409,002
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets		
3. Total Assets	$3,459,997	$3,409,002
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$1,053,987	$1,042,346
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	996,795	681,639
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	21,169	23,113
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	115,636	118,374
(b) Annual Accrued Leave	90,395	86,114
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	844	117
c. Total Liabilities Covered by Budgetary Resources:	$2,278,826	$1,951,703

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)		
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources		
6. Total Liabilities	$2,278,826	$1,951,703
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations		
b. Invested Capital	1,499,084	1,585,259
c. Cumulative Results of Operations	(317,912)	(127,960)
d. Other		
e. Future Funding Requirements		
f. Total Net Position	$1,181,172	$1,457,299
8. Total Liabilities and Net Position	$3,459,998	$3,409,002

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public	189,226	
b. Intragovernmental	4,002,670	4,307,554
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	25,663	18,965
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$4,217,559	$4,326,519
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public		
b. Intragovernmental	4,361,522	4,192,126
11. Depreciation and Amortization		105,270
12. Bad Debts and Writeoffs		839
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		
14. Other Expenses (Note 25)	32,485	45,837
15. Total Expenses	$4,394,007	$4,344,072
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($176,448)	($17,553)
17. Plus (Minus) Extraordinary Items (Note 26)		(33,127)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($176,448)	($50,680)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$1,457,299	$1,253,582
20. Adjustments (Note 27)	(22,529)	(26,958)
21. Net Position, Beginning Balance, as Restated	$1,434,770	$1,226,624
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(176,448)	(50,680)
23. Plus (Minus) Non Operating Changes (Note 28)	(77,150)	281,355
24. Net Position, Ending Balance	$1,181,172	$1,457,299

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($176,448)	($50,680)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	136,947	(79,090)
4. Decrease (Increase) in Other Assets	3,485	(123,236)
5. Increase (Decrease) in Accounts Payable	9,696	286,221
6. Increase (Decrease) in Other Liabilities	317,426	(8,147)
7. Depreciation and Amortization		105,270
8. Other Unfunded Expenses	(25,114)	
9. Other Adjustments	120,449	38,979
10. Total Adjustments	$562,889	$219,997
11. Net Cash Provided (Used) by Operating Activities	$386,441	$169,317
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment	(77,854)	(167,831)
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities	($77,854)	($167,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)		
21. Add:		
a. Restorations		
b. Transfers of Cash from Others		308,634
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others	59,400	47,380
23. Net Appropriations	($59,400)	$261,254

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Depot Maintenance
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities	($59,400)	$261,254
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	$249,187	$262,740
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	183,022	(79,718)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$432,209	$183,022

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid		

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

DEPOT MAINTENANCE FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

DEPARTMENT OF THE AIR FORCE
AIR FORCE WORKING CAPITAL FUNDS
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

Note 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements are prepared to report the financial position, results of operations, and the cash flow of the Air Force Depot Maintenance activity group as required by the Chief Financial Officers (CFOs) Act and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements. These statements are different from the financial reports that are used to monitor and control the activity group's use of budgetary resources.

B. Reporting Entity:

As part of the Air Force Materiel Command (AFMC), the Air Force Depot Maintenance activity group performs manufacturing, development and test work as well as aviation maintenance. Primarily in support of Air Force organizations, it also supports other DoD components, government agencies, and foreign governments. Due to a decreased force structure and technology advances, the Depot Maintenance environment is rapidly changing. Weapons systems embodying new material and technologies require new maintenance processes while improvements in reliability reduce the frequency of maintenance for many items. The net result requires a great flexibility in addressing both wartime and peacetime workload changes. The Air Force Depot Maintenance activity group achieves this flexibility by employing the unique strengths of organic (in house) and contractor repair sources.

Organic Depot Maintenance guarantees mission essential support of core workload of combat forces when commercial sources cannot or will not perform. Organic services include repair, overhaul, and modification of aircraft, engines, modules and associated component items, exchangeable spare parts, missiles, and other major end items. They also provide local manufacture, software maintenance, aircraft storage and reclamation, and support to base tenants and regions.

The Air Force Depot Maintenance locations are at the following sites.

Ogden Air Logistics Center, Hill AFB UT
Oklahoma City Air Logistics Center, Tinker AFB OK

Footnotes

Sacramento Air Logistics Center, McClellan AFB CA
San Antonio Air Logistics Center, Kelly AFB TX
Warner-Robins Air Logistics Center, Robins AFB GA
Aerospace Maintenance and Regeneration Center, Davis Monthan AFB AZ

The Ogden Air Logistics Center also manages the Support Center Pacific, Kadena AB, Japan.

Financial statements, including trial balances, are prepared by the activity managers and their respective division managers using accounting data from the Depot Maintenance Production Cost System. The trial balances are finalized by Defense Accounting Office personnel located at various operating locations. These reports are submitted to DFAS Denver Center for preparation of monthly departmental-level financial statements. The financial statements depicted are derived from accounting records utilizing the Air Force service unique general ledger structure. The activity's general ledger accounts are "cross-walked" to the DoD chart of accounts to produce the financial statements. The Air Logistics Centers' reports are consolidated at the Denver Center and data are used for preparation and transmission of financial and budgetary reports.

C. Budgets and Budgetary Accounting:

Budgeted as a revolving fund, Air Force Depot Maintenance was originally financed as an industrial fund beginning July 1968. When DoD established the Defense Business Operations Fund on October 1, 1991 to expand the use of business-like financial management practices, Air Force Depot Maintenance was included as a business area. On December 11, 1996, the Defense Business Operations Fund became the Defense Working Capital Fund with an emphasis on improved cost visibility and accountability to enhance business management and improve the decision making process. At that time, Air Force Depot Maintenance became a part of the Air Force Working Capital Fund.

Depot Maintenance
Revenues, Expenses, and Net Operating Results by Division
(in thousands)

Division	Revenues	Expenses	Net Operating Results
Air Force	4,217,559	4,394,007	(176,448)
Total	$4,217,559	$4,394,007	($176,448)

D. Basis of Accounting:

The financial statements are presented using the accrual basis of accounting as required by the DoD Financial Management Regulation. During FY 1996, DFAS-DE, SAF/FMB, and OSD/FM jointly agreed that Depot Maintenance would use the full absorption accounting

Footnotes

principle. This means that depreciation and bad debt expenses are included in the figuring of cost of services sold.

Depot Maintenance follows an incremental revenue recognition accounting policy which is similar to a percentage-of-completion accounting method. Depot Maintenance breaks down contracts into their smallest component--a job order. As job orders are completed, revenue is recognized by multiplying the completed job order by a set sales rate. Since a job order can be associated with a specific contract, it can be said that a portion of that contract has been completed. Thus, Depot Maintenance is following a percentage-of-completion method of accounting for recognizing revenue.

E. Revenues and Other Financing Sources:

The Deputy Secretary of Defense (Comptroller) directed, per memorandum dated January 1992, all services to use the percentage of completion accounting method to recognize revenue and expenses. The DoD 7000.14-R, Financial Management Regulation, Chapter 11B, January 1995, also prescribes this method of accounting. Air Force Depot Maintenance uses a method called incremental revenue recognition that basically agrees with the prescribed method. As Depot Maintenance completes a job order, revenue is recognized by either calculating the hourly sales rate or an end item sales price, depending on the type of workload.

In FY 1997, the Air Force Audit Agency audited the Air Force Depot Maintenance incremental revenue recognition method on Project 97068001. The purpose of the audit was to evaluate the adequacy and effectiveness of incremental revenue recognition procedures and compliance with DoD Financial Management Regulation. They concluded that the accounting procedures basically agree with the regulation, but the workaround procedures for calculating and posting revenue needed improvement. That is, the workaround procedures did not include information to properly offset the calculated revenue amounts to accounts receivable, progress billings and unearned revenue accounts. Based on the draft audit, HQ AFMC directed the Air Logistic Centers to make an adjustment to their September 1997 reports.

F. Accounting for Intra-governmental Activities:

Depot Maintenance, as an activity group of the Department of the Air Force, interacts with and is dependent upon the financial activities of the Department as a whole, as well as other entities of the Federal Government. Therefore, these financial statements do not reflect the results of all financial decision applicable to the activity group as though the agency were a stand-alone entity.

Intrafund eliminations relative to the Air Force are accounted for among the activity groups. In addition, interfund eliminations between the Air Force-managed activities and other DoD-managed activities are made only for those activities that, prior to FY 1992, were accounted for by the Air Force. Although Depot Maintenance accounts for the

Footnotes

eliminations, their effect are not included in this activity's financial statements. Instead, they are accounted for in the Department's consolidated statements.

Depot Maintenance civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. Reporting pension benefits under these retirement systems is the responsibility of the Office of Personnel Management for CSRS and FERS and the Department of Defense for MRS. Although the activity finances a portion of the pension benefits under these retirement systems, it does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Thus, total contributions to these retirement plans and Social Security are not included in this activity's financial statements. Instead, they are disclosed in the Department's component statement.

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

The unexpended balances of funds with Treasury for Air Force Depot Maintenance fall within the Air Force Component (.003) of fund resources maintained in U.S. Treasury accounts.

H. Foreign Currency: Not applicable

I. Accounts Receivable:

Generally, accounts receivable includes accounts, claims, and refund receivables. Depot Maintenance has receivables totaling $295,409M. These receivables breakdown as accounts totaling $290,428M: zero claims receivable; and refund receivables equaling $4,968M government and $13K non-government. (Reference Note 5 for breakdown of amount between intragovernmental and governmental.)

(in thousands)

Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$265,443	$0	$265,443
Public	24,985	0	24,985
Refunds	4,981	0	4,981
Claims	0	0	0
Total	$295,409	$0	$295,409

J. Loans Receivable: Not applicable

K. Inventory: Not applicable

Footnotes

L. Investments in U.S. Government Securities: Not applicable

M. Property and Equipment:

The Depot Maintenance activity group records depreciation on buildings and equipment as required by the DoD Accounting Manual. Property and equipment are valued at acquisition cost (including transportation and installation cost) except for donated assets which are valued at fair market value. All property under control of the Depot Maintenance activity group may not be reflected in this statement. Air Force Civil Engineering systems are being modified to accurately reflect property ownership for reporting purposes.

Depot Maintenance also records depreciation on assets they may use, but were acquired through resources other than those made available to the working capital fund. Such assets include mobilization requirements financed by a procurement appropriation; or buildings, facilities, and structures financed by a military construction appropriation.

N. Prepaid and Deferred Charges:

Depot Maintenance posted prepayments and deferred charges to intragovernment of $1,259M and to government of $35,454M.

O. Leases: Not applicable

P. Contingencies: Not applicable

Q. Accrued Leave:

Depot Maintenance posted annual accrued leave for $90,395M.

R. Equity:

Depot Maintenance has invested capital of $1,499,084B. This includes capital investments totaling $1,712,609B. This is a loss over FY 1996 due to a net transfer out of property of $15,164. Appropriations available for Depot Maintenance total ($213,525M). This continues the decline from FY 1996 due to transfer out of $59,400M in support of the Joint Logistics Support Center (JLSC).

Cumulative operating results for the year totaled ($317,912M). This reflects an FY 1997 net operating results of ($176,448) which is a continued decline from FY 1996 when accumulated operating results totaled ($118,926M). A prior period adjustments of $22,529 only contributes a further loss. (Reference Note 27 for additional information on prior period adjustments.)

Footnotes

S. Aircraft/Ship Crashes: Not applicable

T. Treaties for Use of Foreign Bases: Not applicable

U. Comparative Data:

Comparative data for Air Force Depot Maintenance from FY 1996 CFO financial statements has been presented.

V. Undelivered Orders:

Air Force Depot Maintenance is obligated for goods and services which have been ordered but not yet received as of September 30, 1997. Aggregate undelivered orders as reported on the SF133, Report on Budget Execution, line 14c, amounted to $1,335,629,759.83.

Note 2. Fund Balances with Treasury:

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	($784,711)	$0	$0	($784,711)
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	1,312,849	0	0	1,312,849
Unfunded Contract Authority	0	(95,929)	0	0	(95,929)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	$432,209	$0	$0	$432,209

B. Other Information:

The Treasury fund balance is reported at the Air Force component level (.003). not at the fund code level.

The Treasury Balance, as reported on the AR(M)1307. breaks down as:

Footnotes

Funds Collected - Operating Program	$4,487,756
Funds Collected - Capital Program	127,182
Funds Disbursed - Operating Program	(4,229,497)
Funds Disbursed - Capital Program	(76,854)
Funds with Treasury - Operating Program	316,646
Funds with Treasury - Capital Program	(193,024)
Treasury Balance	$432,209

Note 3. Cash, Foreign Currency and Other Monetary Assets: Not applicable

Note 4. Investments: Not applicable

Note 5. Accounts Receivable:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$270,411	$0		$270,411
Governmental	24,998	0		24,998
B. Non-Entity Receivables:				
Intragovernmental	$0	$0		$0
Governmental	0	0		0

C. Other Information:

Depot Maintenance uses the direct write off method for bad debts instead of using an allowance account.

Note 6. Other Assets: Not applicable

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable

Note 8. Inventory, Net: Not applicable

Footnotes

Note 9. Work in Process:

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
(1) In House	$250,882	e
(2) Contractor	500,698	n/a
(3) Other Government Activities	0	
(4) Government Furnished Materials	0	
Total	$751,580	

*Key	Work in Process Method
a	FIFO
b	LIFO
c	Moving Average
d	Weighted Average
e	Other

B. Other Information:

Total Work in Process of $751,580M breaks down as follows:

	In House	Contract
Direct Cost of Labor	$77,260	$430,584
Direct Cost of Material	93,907	62,330
Other Direct Costs	54,667	7,784
Total	$225,834	$500,698

The difference between the In House amounts shown in subparagraphs A and B relate to unallocated costs. They breakdown as $147K unallocated labor, $22,943M unallocated material and $1,958M other unallocated costs.

Footnotes

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

	(1) OM&S Amount	(2) Allowance for Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
(1) Held for Use	$696,779	$0	$696,779	e
(2) Held in Reserve for Future Use	0	0	0	n/a
(3) Excess, Obsolete and Unserviceable	0	0	0	n/a
Total	$696,779	$0	$696,779	

*Key	Valuation Method
a	FIFO
b	LIFO
c	Moving Average
d	Weighted Average
e	Other

B. Restrictions on Operating Materials and Supplies: Not applicable

C. Other Information:

Total operating materials and supplies includes:

Operating Spare Parts	$163,008
Material In-Stores	311,309
Material Intransit	222,462
Total	$696,779

Valuation of Materials: Intransit from procurement is recorded at the value of the material in-transit, based upon amounts paid or to be paid. All other materials, including operating supplies and non-consumable items, are valued in the supply systems at standard prices established by the Air Force or the Defense Logistics Agency as required by DoD accounting directives. Generally, these values are based on prices paid for recently required items plus appropriate surcharges.

Note 11. Stockpile Materials: Not applicable

Note 12. Seized Property: Not applicable

Note 13. Forfeited Property, Net: Not applicable

Footnotes

Note 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable

Note 15. Property, Plant and Equipment, Net:

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land			$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements	S/L	20	852,482	(375,762)	476,720
C. Military Equipment			13,589	0	13,589
D. ADP Software	S/L	5	5,654	(1,280)	4,374
E. Equipment	S/L	5&10	1,729,045	(1,021,593)	707,452
F. Assets Under Capital Lease			0	0	0
G. Other			0	0	0
H. Natural Resources			0	0	0
I. Construction-in-Progress			45,172	0	45,172
Total			2,645,942	(1,398,635)	1,247,307

*Keys:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

J. Other Information:

Asset class E includes equipment, ADP hardware, and general purpose vehicles. Equipment, other than ADP hardware and general purpose vehicles are established with a 10 year service life. ADP hardware and general purpose vehicles are established with a 5 year service life.

Depot Maintenance records depreciation on buildings and equipment as required by the DoD Accounting Manual. Property and equipment are valued at acquisition cost (including transportation and installation cost) except for donated assets which are valued at fair market value. All property under control of the Depot Maintenance activities may not be

reflected in this statement. Air Force Civil Engineering systems are being modified to accurately reflect property ownership for reporting purposes.

SAF/FMBR, HQ AFMC/FMRI, and DFAS-DE/AN agreed in a January 1997 meeting that ADP Management Systems in Development should be reported on the AR(M)1307, Statement of Financial Position, Line 9c, for ADP Software rather than on line 9e for Construction in Progress. They agreed that line 9e more specifically addressed construction of facilities rather than development of ADP software. Therefore, all ADP software, even that which is in development, should be reported on the line

Between FY 1996 and FY 1997, Depot Maintenance had equipment losses totaling $58 million. These losses can be attributed to downsizing. SAF/FM requested approval from OUSD(C) to exclude $24,708 million of these losses from nonrecoverable operating results. OUSD(C) granted the request in memo dated Sep 15, 1997 and the amount was reported in the annual operating budget AFDM-97-6.

K. Fully Depreciated Assets Still in Use:

The current accounting system retains the original acquisition cost in the property general ledger until the asset is disposed. However, the original acquisition costs and corresponding accumulated depreciation amounts of fully depreciated assets are not separately determined for accounting purposes.

L. Capitalization Threshold:

Assets are capitalized according to an OSD policy establishing cost thresholds for Working Capital Fund activities. The threshold for assets acquired during FY 1996 is $100,000.

Note 16. Debt: Not applicable

Note 17. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovermental			
(a) Unearned Revenue - Advances from Government Agencies and Funds	$0	$462,938	$462,938
(b) Progress Billings to Others	0	533,857	533,857
Total	$0	$996,795	$996,795

Footnotes

	Noncurrent Liability	Current Liability	Total
2. Governmental			
(a) Unearned Revenue-Advances from Public	$0	$844	$844
Total	$0	$844	$844

B. Other Information:

A reconcilable difference occurs between CFO and AR(M)1307 figures for Accounts Payable/Other Liabilities. This is a result of how DoD SGL account 2190, Other Accrued Liabilities, is taken into consideration between the two statements. For the AR(M)1307, DoD 7000.14-R, Volume 11B, Chapter 70, paragraphs 27 and 33, show account 2190 being considered as either accounts payable or as other liabilities. DFAS-DE has determined that account 2190 will be considered as "other liabilities". The CFO statement includes DoD account 2190 as accounts payable (intragovernmental).

Accounts Payable

Statement & Line No.	CFO	Statement & Line No	AR(M)1307
SOFP, line 4a(1)		SOFP, line 12a	
DoD SGL 2111.1	$265,366	DoD SGL 2111.1	$265,366
2190.11	1,150,507		
minus 1015	(361,886)	minus 1015	(361,886)
Sub-Total	$1,053,987		
SOFP, line 4b(1)			
DoD SGL 2113.1	21,169	DoD SGL 2113.1	21,169
A/P Total	$1,075,156	**A/P Total**	($75,351)*

Other Liabilities

Statement & Line No.	CFO	Statement & Line No	AR(M)1307
SOFP, line 4a(4)		SOFP, line 12c	
DoD SGL 2994.11	$533,857	DoD SGL 2994.11	$533,857
		SOFP, line 12g	
2311.1	462,938	2311.1	462,938
SOFP, line 4b(7)			
2312.1	844	2312.1	844
		2190.11	1,150,507
O/L Total	$997,639	**O/L Total**	$2,148,146
Liabilities Total	$2,072,795	**Liabilities Total**	$2,072,795

(* Rounding causes the difference between this amount and the one shown on the AR(M)1307.)

Although the two statements differ because of the placement of the DOD account 2190, the overall result is that "Total Liabilities" on both statements agree.

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

Footnotes

Note 18. Leases: Not applicable

Note 19. Pensions and Other Actuarial Liabilities:

Civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS), while 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 activity groups finance a portion of pension benefits under all these retirement systems but do not disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS and DoD for MRS. The activity groups also contribute to the FERS Thrift Savings Plan on behalf of their participating employees.

Note 20. Net Position:

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	1,499,084	0	0	1,499,084
C. Cumulative Results of Operations	(317,912)	0	0	(317,912)
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	$1,181,172	$0	$0	$1,181,172

F. Other Information:

Equity consists of invested capital, cumulative results of operations, and unexpended appropriations. Increases to invested capital are recorded when capital assets are acquired. Decreases occur as capital assets are depreciated or consumed in operations. The cumulative results of operations represent the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Footnotes

Invested Capital (line 7b) on the CFO statement does not equal the Invested Capital (line 15b) on the AR(M)1307. The difference is due to rounding. Although both statements appear to have the same value, the AR(M)1307 vertically adds to one greater than the value shown. Both systems used to prepare the statements work in dollars and cents, but the AR(M)1307 system adds all value before rounding to thousands while the CFO system after values are rounded to thousands.

Net position (line 7f) does not equal Assets minus Liabilities (lines 3 minus 6) by one. Total Assets (line 3) do not equal Total Liabilities and Net Position (line 8) by one. Although these exist on the CFO Statement of Financial Position, they also existed on the AR(M)1307 Statement of Financial Position. This out of balance condition stemmed from a December 1996 trial balance received from Warner Robins with a proof of disbursement error of $1,000. This error caused liabilities to be overstated. DFAS-DE advised Warner Robins of the error and requested they correct it. Robins took no action to rectify the problem. Thus, the $1,000 error remained on the books through the end of the year.

Note 21. Taxes: Not applicable

Note 22. Other Revenues and Financing Sources:

	1997	1996
A. Other Revenues and Financing Sources:		
(1) Reimbursements	$194	$63
(2) Invested Capital Used	25,469	18,902
Total	$25,663	$18,965

B. Other Information:

Miscellaneous Reimbursements (GLA 5910) comes from the sale of scrap by the Aerospace Maintenance and Regeneration Center (AMARC) in Tucson AZ.

The Invested Capital Used account (GLA 5790) is used to record current period depreciation on assets acquired through resources other than those made available to working capital funds. Such assets would include mobilization requirements financed by a procurement appropriation; or buildings, structures, and facilities financed by a military construction appropriation.

Note 23. Program or Operating Expenses:

Since Depot Maintenance is a service provider, all program or operating expenses are included on Line 10, Cost of Services Sold. This is in accordance with DoD guidance dated September 1994. The following table identifies what operating expenses are included in Cost of Services Sold as reported on the Report of Obligations (SF 225).

Footnotes

	1997	1996
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$1,354,448	$1,375,271
(2) Travel and Transportation	19,611	15,760
(3) Rental, Communication and Utilities	42,266	45,717
(4) Printing and Reproduction	2,578	768
(5) Contractual Services	1,390,261	1,323,134
(6) Supplies and Materials	1,416,953	1,500,014
(7) Equipment not Capitalized	0	0
(8) Grants, Subsidies and Contributions	0	0
(9) Insurance Claims and Indemnities	0	0
(10) Other (describe):		
(a) Depreciation	25,596	105,270
(b) Bad Debt Writeoffs	2,628	839
(c) Other Expenses	0	8,419
(11) Total Expenses by Object Class	$4,254,341	$4,375,192

Note 24. Cost of Goods and Services Sold:

A. Cost of Services Sold	
(1) Beginning Work-in-Process	$762,333
(2) Plus: Operating Expenses	4,350,769
(3) Minus: Ending Work-in-Process	751,580
(4) Minus: Completed Work for Activity Retention	0
Cost of Services Sold	$4,361,522

The total of Cost of Services Sold shown above shows the effect of the full absorption accounting principle (reference Note 1D) begun in FY 1996. That means that depreciation of $113,433M and bad debts of ($270K) are included as operating expenses in the calculation of Cost of Services Sold.

Note 25. Other Expenses:

	1997	1996
A. Other Expenses:		
Losses on Dispositions of Assets	$32,485	$45,837
Total	$32,485	$45,837

This is the amount that was recored in DOD SGL 7210 for losses of disposition of assets.

Footnotes

Note 26. Extraordinary Items: Not applicable

Note 27. Prior Period Adjustments:

A. Prior Period Adjustments:

(1) Unit Repair Cost Error	($18,177)
(2) WIP Correction	(6,937)
(3) Bad Debts Correction	2,585
Total	($22,529)

B. Other Information:

During September 1996, the Oklahoma City Air Logistics Center made an adjustment error to the unit repair cost on a contract. This error caused a decrease to labor expense and government furnished services expense. The error caused Depot Maintenance (contract) to recognize an artificial profit for that month. DFAS-DE/AN gave written approval for Oklahoma City to correct the error and post a prior period adjustment.

In FY 1996, the Ogden Air Logistics Center posted some suspended invoices that could not be liquidated due to a lack of funding. These suspended invoices did not get written off during year-end processing and were carried over into FY 1997. These invoices caused the proof of work in process to be out of balance. It also caused work in process to be understated by $6.9M. DFAS-DE recommended the suspended invoices be zeroed out in order to correct FY 1997 work in process. This meant posting the amount as a prior period adjustment.

During year end close-out of FY 1996, it was noted that a home office clearing account did not balance to the same clearing account at field level. The systems accountant directed corrective action to bring the home office clearing account into line with the field-level clearing account. This action caused an out of balance condition to occur on the Report of Budget Execution (SF133) for Accounts Receivable. To eliminate the out of balance, the corrective action was reversed and then recorded as a prior period adjustment.

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

A. Increases:	1997	1996
(1) Transfers-In:		
From Others w/o Reimbursement	$83,509	$0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	0	281,355
(5) Total Increases	$83,509	$281,355

Footnotes

B. Decreases:	1997	1996
(1) Transfers-Out:		
To Govt Agencies w/o Reimbursement	($158,073)	$0
(2) Donations	0	0
(3) Other Decreases	(2,586)	0
(4) Total Decreases	($160,659)	$0
C. Net Non-Operating Changes (Transfers):	($77,150)	$281,355

D. Other Information:

The Transfer In From Others Without Reimbursement includes buildings, facilities, equipment, material, and depreciation costs transferred between ALCs and others without reimbursements. The Transfer Out From Others Without Reimbursement is the other side of the transfer in. However, transfer outs also includes the transfer of cash to the Joint Logistics Systems Center (JLSC) for services they provide to Depot Maintenance.

Other decreases equates to an adjustment made during the closing of home office for FY 1996. A clearing account did not balance to the field clearing account. A correction was made to adjust home office to the field, but this adjustment created an out of balance condition in the preparation of accounts receivable for the FY 1997 Report of Budget Execution (SF133). To correct the SF133, the FY 1996 closing adjustment had to be reversed and identified as a prior period adjustment.

Note 29. Intrafund Eliminations:

Intrafund eliminations relative to the Air Force are accounted for among activity groups. Schedule B presents interfund eliminations between the Air Force-managed activities for those Fund activities that, prior to FY 1992, were accounted for by the Air Force, e.g., Air Force Commissary operations. Schedule D presents intrafund eliminations between Air Force and other DoD activities. Schedule E presents intrafund eliminations between Air Force and other Federal entities that are not a part of DoD.

SCHEDULE B

Selling Activity:		Column A	Column B	Column C	Column D
	Reimb Source Code	Accounts Receivable	Revenue	Unearned Revenue	Collections
Depot Maintenance	Gxx	$72,922	$1,672,446	$0	$1,599,524
Total		$72,922	$1,672,446	$0	$1,599,524

Footnotes

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Supply Management	$71,532	$1,643.080	$0	$1,571,548
Transportation Services	$1,390	$29.366	$0	$27,976
Total	$72,922	$1,672.446	$0	$1,599,524

Schedule C

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	B/C/E/Fxx	$188,933	$2,214,340	$0	$2,025,407
Total		$188,933	$2,214,340	$0	$2,025,407

Customer Activity:	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disburse-ments
Department of the Army	$514	$16,708	$0	$16,194
Department of the Navy	$6,417	$139,792	$0	$133,375
Department of the Air Force	$176,381	$2,060,366	$0	$1,883,985
Other Defense Organizations	$5,621	($2,526)	$0	($8,147)
Total	$188,933	$2,214,340	$0	$2,025,407

Schedule D

Selling Activity:	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force WCF	Fxx	$28,573	$299,153	n/a	$217,226
Total		$28,573	$299,153	$0	$217,226
		Column	Column	Column	Column

Footnotes

Customer Activity:	A	B	C	D
	Accounts Payable	Expenses	Advances	Disbursements
Defense Security Assistance Agency	$17,088	$76,148	n/a	$5,706
Other Non-Defense Sources	$11,485	$223,005	$0	$211,520
Total	$28,573	$299,153	$0	$217,226

Note 30. Contingencies: Not applicable

Note 31. Other Disclosures:

A. Statement of Financial Position:

Salaries and Wages, line 4b(2a), equates to DoD accounts 2211, Accrued Civilian Payroll, and 2213, Accrued Civilian Benefits. Neither of these accounts included military payroll or benefits. For Depot Maintenance, all military payroll and benefits are recorded as an accounts payable to government (DoD SGL 2211.1).

Annual Accrued Leave, line 4b(2b), equates to DoD account 2215, Accrued Funded Annual Leave. This account contains no sick leave. Depot Maintenance maintains a separate account to record sick leave.

B. Statement of Operations and Changes in Net Position:

Total Revenues and Financing Sources (line 8) does not equal the AR(M)1307 Statement of Operations, Part I, line 4 by one. This discrepancy is due to rounding.

Revenue from Sales (lines 2a & b) does not equal Cost of Services Sold (lines 10a & b). Only in theory will revenue ever equal expenses or that net operating results will equate to zero. In the real world, Depot Maintenance revenue exceeds expenses. This can be attributed to the way Depot Maintenance recognizes revenue using the incremental revenue recognition accounting policy (reference Note 1D). As job orders are finished, they are multiplied by a set sales rate to determine the revenue to be recognized. It could be said that this set sales rate is arbitrary, and the recognized revenue generated from this formula may or may not be actual. Expenses, on the other hand, are recorded at actual. Thus, an arbitrary revenue amount may or may not equal actual expenses or cost of services sold.

Beginning Balance Net Position (line 21) does not balance to the AR(M)1307, Statement of Operations, Part II, lines 1A(1), 1B(3), and 1D(1). The difference of $2,586 relates to a correction of a home office adjustment that occurred during year end 1996 closing. (Reference Note 27.)

C. Statement of Cash Flow:

Since the Statement of Cash Flows contains no direct footnotes, comments about this statements will be made here.

Footnotes

There is a difference between the AR(M)1307 and the CFO statement in the change in accounts receivables (line 3) of $2.585M. There is also a difference between the two statements in Other Unfunded Expenses (line 8) of a contra $2,585M.

Line	CFO	AR(M)1307	Difference
Dec (Inc) in Accts Rec	$136,947	$134,362	$2,585
Other Unfunded Expenses	(25,114)	(22,529)	(2,585)
Total	$111,833	$111,833	$0

The difference amount relates to a prior period adjustment (see Note 27). For CFO, the amount was included as a receivable and not as an unfunded expense. The amount affected the AR(M)1307 in the opposite manner.

There is also a difference between the AR(M)1307 and the CFO statement in the changes in accounts payable and other liabilities.

Line	CFO	AR(M)1307	Difference
Inc (Dec) in Accts Pay	$9,696	($64,088)	($73,784
Inc (Dec) in Other Liabilities	317,426	391,210	73,784
Total	$327,122	$327,122	$0

The reason for the difference is due to the placement of DoD account 2190 (reference Note 17C). The CFO statement places this account as an Accounts Payable whereas the AR(M)1307 places this account as an Other Liability.

Depreciation and Amortization, line 7, is blank on the CFO Statement because the crosswalk the CFO system uses for Cash Flow statement links the two statements. (The Statement of Operations, depreciation and amortization, line 11, populates the Cash Flow statement, line 7.) The Statement of Operations, line 11 is blank because Depot Maintenance works with the full absorption accounting principal. This means depreciation and amortization expenses are included as a part of Cost of Services Sold. Thus, based on the crosswalk, since the Statement of Operations, line 11 is blank, the Cash Flow statement, line 7 will also be left blank.

However, even if the Statement of Operations depreciation and amortization line were populated, these expenses ($113,433) would not equate to depreciation and amortization figure ($87,964) shown on the AR(M)1307 Cash Flow statement. The depreciation figure on the Cash Flow statement does not include depreciation recorded on invested capital used. Depot Maintenance uses buildings, facilities, and equipment that were not funded by working capital funds. Since these are not working capital fund assets, their depreciation is excluded from consideration in the cash flow of working capital funds. Therefore, since line 7 on the CFO Cash Flow statement cannot be populated with the correct amount of depreciation, it has been included in Other Adjustments (line 9).

Other Unfunded Expenses, line 8, shows a significant change from zero in FY 1996 to ($25,114) in FY 1997. The simple explanation for the change is that there were no unfunded expenses in FY 1996 and there were in FY 1997. The amount reflected in FY 1997 represents prior period adjustments as detailed in Note 27, items A(1) and A(2). These unfunded items decreased the current fiscal year's cash flow.

Other Adjustments, line 9, consists of (1) losses on disposition of assets (DoD SGL 7210) of $32,485, and (2) depreciation (DoD SGLs 6125 and 6128) of $87,964.

Footnotes

D. Negative Unliquidated Obligations:

Depot Maintenance WCF Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$40,535	$56,656	$16,121	40%
Negative Unliquidated Obligations*	11,569	13,412	1,843	16%
Totals	$52,104	$70,068	$17,964	56%

* Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding.

Footnotes

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

TRANSPORTATION PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Transportation
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$164,177	$170,142
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	19,495	26,834
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	1,517	2,064
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work in Process (Note 9)		
f. Operating Materials/Supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	40,332	41,733
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$225,521	$240,773
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Transportation
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets		
3. Total Assets	$225,521	$240,773
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$1,097	($399)
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	22,693	55,407
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	(389)	26
(b) Annual Accrued Leave		
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Covered by Budgetary Resources:	$23,401	$55,034

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Transportation
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)		
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources		
6. Total Liabilities	$23,401	$55,034
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations		
b. Invested Capital	161,580	156,580
c. Cumulative Results of Operations	40,540	38,930
d. Other		(9,771)
e. Future Funding Requirements		
f. Total Net Position	$202,120	$185,739
8. Total Liabilities and Net Position	$225,521	$240,773

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public		
b. Intragovernmental		
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)		
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources		
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public		
b. Intragovernmental		
11. Depreciation and Amortization		
12. Bad Debts and Writeoffs		
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		
14. Other Expenses (Note 25)		
15. Total Expenses		
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items		
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$185,739	($285,033)
20. Adjustments (Note 27)	11,355	(9,771)
21. Net Position, Beginning Balance, as Restated	$197,094	($294,804)
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		
23. Plus (Minus) Non Operating Changes (Note 28)	5,026	480,543
24. Net Position, Ending Balance	$202,120	$185,739

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Transportation
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	7,886	25,220
4. Decrease (Increase) in Other Assets		
5. Increase (Decrease) in Accounts Payable	(31,218)	(24,318)
6. Increase (Decrease) in Other Liabilities	(415)	26
7. Depreciation and Amortization		
8. Other Unfunded Expenses		
9. Other Adjustments	11,381	(9,772)
10. Total Adjustments	($12,366)	($8,844)
11. Net Cash Provided (Used) by Operating Activities	($12,366)	($8,844)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment	1,401	(6,325)
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities	$1,401	($6,325)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)		
21. Add:		
a. Restorations		
b. Transfers of Cash from Others	5,000	480,543
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others		
23. Net Appropriations	$5,000	$480,543

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Transportation
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities	$5.000	$480.543
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($5.965)	$465.374
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	170.142	(295.232)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$164.177	$170.142

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid		

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

TRANSPORTATION FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

DEPARTMENT OF THE AIR FORCE
AIR FORCE WORKING CAPITAL FUNDS
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements are prepared to report the financial position, results of operations, and the cash flow of the Air Force Transportation activity group as required by the Chief Financial Officers (CFOs) Act and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements. These statements are different from the financial reports that are used to monitor and control the activity group's use of budgetary resources.

B. Reporting Entity:

Air Mobility Command's (AMC) "Air Force-unique" transportation responsibilities include the executive travel mission and operation of other operational support aircraft, the air weather service, AMC training, AMC base operations, tanker operations, and other miscellaneous AMC functions. The Air Force unique-transportation activity group was removed from the working capital funds effective October 1, 1994. These financial statements relate to unliquidated residual balances. Revenue and cost of goods sold are no longer applicable.

Field level trial balance is prepared by the Defense Accounting Office (DAO) personnel located at the DFAS Omaha Operating Location. This report is submitted to the DFAS Denver Center for preparation of monthly departmental-level financial statements.

C. Budgets and Budgetary Accounting:

Budgeted as a revolving fund, Air Force Transportation was originally financed as an industrial fund. When DoD established the Defense Business Operations Fund on October 1, 1991 to expand the use of business-like financial management practices, Air Force Transportation was included as a business area. In October 1, 1994, DoD determined this business area should be closed as a revolving fund. Therefore, Air Force Transportation generates no revenue or expenses.

Currently, Air Force finances this unique transportation group through the Air Force operations and maintenance appropriation.

Footnotes

D. Basis of Accounting:

In general, the financial statements are presented on the accrual basis of accounting as required by the DoD Accounting Manual. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant.

E. Revenues and Other Financing Sources:

As a business fund activity, Air Force Transportation would recognize revenue at the point the rendered service was completed. But since it is now a closed activity, Air Force Transportation does not generate any revenue.

F. Accounting for Intra-governmental Activities: Not applicable

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

The unexpended balances of funds with Treasury for Air Force Transportation fall within the Air Force Component (.003) of fund resources maintained in U.S. Treasury accounts.

H. Foreign Currency: Not applicable

I. Accounts Receivable:

Generally, accounts receivable includes accounts, claims, and refund receivables. However, since Air Force Transportation is a closed activity, the only receivables left on the books are accounts totaling $21,012. (Reference Note 5 for breakdown of accounts receivable between intragovernmental and governmental.)

	(in thousands)		
Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$19,495	$0	$19,495
Public	1,517	0	1,517
Refunds	0	0	0
Claims	0	0	0
Total	$21,012	$0	$21,012

J. Loans Receivable: Not applicable

K. Inventory: Not applicable

L. Investments in U.S. Government Securities: Not applicable

Footnotes

M. Property and Equipment:

As a closed working capital activity, all Air Force Transportation property and equipment has been transferred to the general fund under which they are currently financed.

N. Prepaid and Deferred Charges: Not applicable

O. Leases: Not applicable

P. Contingencies: Not applicable

Q. Accrued Leave: Not applicable

R. Equity:

When Air Force Transportation became a business area in the Defense Business Operations Fund, it capitalized $456 million of investments. After it became a closed activity, DFAS-DE decapitalized (per memo) $275 million of investments. This left current capital investments in the activity of $180,580 (or $181 million). Air Force Transportation has appropriations available of ($19,000). Their total invested capital stands at $161,580.

Cumulative operating results for the year were $40,540. This amount includes accumulated operating results $29,159 from the beginning of period with an additional $11,381 related to prior period adjustments. The prior period adjustments relate to collections and disbursements record in FY 1997, but are really applicable to the period prior to October 1, 1994.

S. Aircraft/Ship Crashes: Not applicable

T. Treaties for Use of Foreign Bases: Not applicable

U. Comparative Data:

Comparative data for Air Force Transportation from FY 1996 CFO financial statements has been presented.

V. Undelivered Orders:

Air Force Transportation is obligated for goods and services which have been ordered but not yet received as of September 30, 1997. Aggregate undelivered orders as reported on the SF133, Report on Budget Execution, amounted to $5,190,389.88.

NOTE 2. Fund Balances with Treasury:

Footnotes

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	$156,597	$0	$0	$156,597
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	7,580	0	0	7,580
Unfunded Contract Authority	0	0	0	0	0
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	$164,177	$0	$0	$164,177

B. Other Information:

At Treasury, fund balances are not maintained at the fund code level. Therefore, the fund balance shown above is included as part of the Air Force component (.003).

The Treasury Balance, as reported on the AR(M)1307, breaks down as:

Funds Collected - Operating Program	$5,206
Funds Disbursed - Operating Program	(16,171)
Funds with Treasury - Operating Program	175,142
Treasury Balance	$164,177

NOTE 3. Cash, Foreign Currency and Other Monetary Assets: Not applicable

NOTE 4. Investments: Not applicable

Footnotes

NOTE 5. Accounts Receivable:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$19,495	$0		$19,495
Governmental	1,517	0		1,517
B. Non-Entity Receivables:				
Intragovernmental	$0	$0		$0
Governmental	0	0		0

NOTE 6. Other Assets: Not applicable

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable

NOTE 8. Inventory, Net: Not applicable

NOTE 9. Work in Process: Not applicable

NOTE 10. Operating Materials and Supplies (OM&S), Net: Not applicable

NOTE 11. Stockpile Materials: Not applicable

NOTE 12. Seized Property: Not applicable

NOTE 13. Forfeited Property, Net: Not applicable

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable

NOTE 15. Property, Plant and Equipment, Net:

Footnotes

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land			$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements	SL	20	0	0	0
C. Military Equipment			0	0	0
D. ADP Software	SL	5	0	0	0
E. Equipment	SL	5&10	0	0	0
F. Assets Under Capital Lease			0	0	0
G. Other			0	0	0
H. Natural Resources			0	0	0
I. Construction-in-Progress			40,332	0	40,332
Total			$40,332	$0	$40,332

*Keys:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

Asset class E. includes equipment, ADP hardware, and general purpose vehicles. Equipment, other than ADP hardware and general purpose vehicles are established with a 10 year service life. ADP hardware and general purpose vehicles are established with a 5 year service life.

J. Other Information:

The Transportation activity group transferred all facilities, facility improvements, and equipment to Air Force operations and maintenance accounts during Fiscal Year 1995. The above balances represent construction in progress which will also be transferred when construction is complete and documentation can be finalized.

Footnotes

NOTE 16. Debt: Not applicable

NOTE 17. Other Liabilities: Not applicable

NOTE 18. Leases: Not applicable

NOTE 19. Pensions and Other Actuarial Liabilities: Not applicable

NOTE 20. Net Position:

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated.				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	161,580	0	0	161,580
C. Cumulative Results of Operations	40,540	0	0	40,540
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	$202,120	$0	$0	$202,120

NOTE 21. Taxes: Not applicable

NOTE 22. Other Revenues and Financing Sources: Not applicable

NOTE 23. Program or Operating Expenses: Not applicable

NOTE 24. Cost of Goods and Services Sold: Not applicable

Footnotes

NOTE 25. Other Expenses: Not applicable

NOTE 26. Extraordinary Items: Not applicable

NOTE 27. Prior Period Adjustments:

A. Prior Period Adjustments:

(1) Collections & Disbursements	$10,965
(2) Salaries & Wages	390
Total	$11,355

(1) Collections and disbursements totaling $10,965M relate to the period prior to October 1, 1994 (or before Air Force Transportation closed). Thus, cash amounts are reported as prior period adjustments. DFAS-DE prepared the instructions for using DOD account 7400 to record these amounts.

(2) Accounts payable for salaries and wages of $390K also relate to the period prior to October 1, 1994. This amount relates to collections made on over disbursements of civilian personnel benefits incurred during the period prior to October 1, 1994.

NOTE 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	1997	1996
(1) Transfers-In:		
DWCF Corporate Account	$5,000	$0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	26	204,963
(5) Total Increases	$5,026	$204,963

B. Decreases:	1997	1996
(1) Transfers-Out:		
(a) Reimbursement	$0	$275,580
(2) Donations	0	0
(3) Other Decreases	0	0
(4) Total Decreases	$0	$275,580
C. Net Non-Operating Changes (Transfers):	$5,026	$480,543

Footnotes

D. Other Information:

Net non-operating changes consists of:

(1) A transfer in September 1997 of $5M from the Defense Working Capital Fund Corporate (DWCF) Account. DFAS-HQ/AFC memo, undated, prescribed the guidance to allocate the undistributed net outlay in the DWCF Corporate Account to the appropriate activity groups. Five million dollars was determined to be allocated to Air Force Transportation. A Voucher and Schedule of Withdrawals and Credits (SF1081) and a Non-Expenditure Transfer Authorization (SF1151) were processed in September 1997 to allocate the funds.

(2) A discrepancy in the beginning of period AOR figure. At the beginning of FY 1997, the Statement of Operations, Part II, line 1B(1), must equate to line 1B(5) of the same statement from the previous year. Two revisions of the AR(M)1307 were made at the end of FY 1996 to correct errors. DFAS-IN accepted only the first revision which showed an incorrect end of year AOR amount on line 1B(5). If they had accepted revision 2, end of year AOR would have been correctly stated. The end result is that $29,159M became the beginning of period AOR figure used in FY 1997 instead of the correct figure of $29,185M. The $26K difference was recorded as a prior period adjustment on the AR(M)1307 which updated line 1B(3) as an adjusted beginning of period AOR.

NOTE 29. Intrafund Eliminations: Not applicable

NOTE 30. Contingencies: Not applicable

NOTE 31. Other Disclosures:

A. Statement of Financial Position:

The Statement of Financial Position, line 4b(2a), Accrued Payroll and Benefits, Salaries and Wages, shows an abnormal balance. This abnormal balance is related to collections made by DFAS-DE for over disbursements on payroll-related matters. The over disbursements originally occurred prior to October 1, 1994 (or before Air Force Transportation became a closed activity).

B. Statement of Cash Flows:

Since the CFO Statement of Cash Flows has no direct footnotes, comments about this statement will be made as an other disclosure.

Other Adjustments, line 9, consists of (1) collections and disbursements applicable to a prior period of $10,965M; and (2) accounts payable adjustments to salaries and wages of

Footnotes

$390K. (Reference Note 27 on prior period adjustments.) In addition to these prior period adjustments, an error of $26K occurred due to an error in a beginning of period balance on the AR(M)1307. On the Statement of Operations, Part II, line 1B(1), the beginning of year AOR was brought forward from FY 1996 as $29,159M. It should have been brought forward as $29,185M. In FY 1996, two revisions of the AR(M)1307 were made to correct errors. DFAS-IN accepted revision 1 which had an incorrect end of year AOF amount, but would not accept revision 2 which had the corrected end of year AOR.

Purchase of Property, Plant, and Equipment, line 13, represents the net change in construction in process of $1,401M. Although Air Force Transportation is a closed activity, they are finishing projects begun before they were closed. Once finished, these projects will be transferred to the O&M funded organization.

Transfer of Cash from Others, line 21b, represents a $5M transfer from the Defense Working Capital Fund Corporate account. DFAS-HQ/AFC memo, undated, prescribed the guidance to allocate the undistributed net outlay of this account to the appropriate activity groups. Five million was the portion of the whole allocated to Air Force Transportation. A Voucher and Schedule of Withdrawals and Credits (SF1081) and a Non-Expenditure Transfer Authorization (SF1151) were processed in September 1997 to allocate the funds.

C. Negative Unliquidated Obligations:

Air Force Transportation WCF Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$5,446	$1,578	($3,868)	(29%)
Negative Unliquidated Obligations*	1,297	526	(771)	(41%)
Totals	$6,743	$2,104	($4,639)	(70%)

* Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

BASE SUPPORT PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$25,633	$23,489
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	1,139	1,253
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)	2	13
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work in Process (Note 9)		
f. Operating Materials/Supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)		
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$26,774	$24,755
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable. Net (Note 5)		
(2) Interest Receivable. Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets		
3. Total Assets	$26,774	$24,755
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$120	($2,043)
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	4,158	4,158
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	607	608
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages		
(b) Annual Accrued Leave		
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Covered by Budgetary Resources:	$4,885	$2,723

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)		
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources		
6. Total Liabilities	$4,885	$2,723
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations		
b. Invested Capital	20,393	20,393
c. Cumulative Results of Operations	1,496	1,639
d. Other		
e. Future Funding Requirements		
f. Total Net Position	$21,889	$22,032
8. Total Liabilities and Net Position	$26,774	$24,755

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public		
b. Intragovernmental	13	
3. Interest and Penalties. Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)		22
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$13	$22
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public		
b. Intragovernmental		
11. Depreciation and Amortization		
12. Bad Debts and Writeoffs		
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		
14. Other Expenses (Note 25)		
15. Total Expenses		
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$13	$22
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$13	$22

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$22,032	($3,893)
20. Adjustments (Note 27)	(156)	
21. Net Position, Beginning Balance, as Restated	$21,876	($3,893)
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	13	22
23. Plus (Minus) Non Operating Changes (Note 28)	(1)	25,903
24. Net Position, Ending Balance	$21,888	$22,032

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$13	$22
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	125	1
4. Decrease (Increase) in Other Assets		
5. Increase (Decrease) in Accounts Payable	2,162	(1,472)
6. Increase (Decrease) in Other Liabilities		(13)
7. Depreciation and Amortization		
8. Other Unfunded Expenses		
9. Other Adjustments	(156)	(93)
10. Total Adjustments	$2,131	($1,577)
11. Net Cash Provided (Used) by Operating Activities	$2,144	($1,555)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment		153
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities		$153
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)		
21. Add:		
a. Restorations		
b. Transfers of Cash from Others		25,997
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others		
23. Net Appropriations		$25,997

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Base Support
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities		$25,997
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	$2,144	$24,595
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	23,489	(1,106)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$25,633	$23,489

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid		

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

BASE SUPPORT FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

DEPARTMENT OF THE AIR FORCE
AIR FORCE WORKING CAPITAL FUNDS
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements are prepared to report the financial position, results of operations, and the cash flow of the Air Force Base Support activity group as required by the Chief Financial Officers (CFOs) Act and other appropriate legislation. They have been prepared from the books and records of the activity group in accordance with Department of Defense (DoD) guidance on the form and content of financial statements. These statements are different from the financial reports that are used to monitor and control the activity group's use of budgetary resources.

B. Reporting Entity:

The Air Force Base Support activity group consists of the Air Force Laundry and Dry Cleaning Service, the Air Force Commissary Service, and the San Antonio Real Property Maintenance Agency (SARPMA). All three of these activities were closed and removed from the working capital fund prior to FY 1997. Prior to closure, each of these activities reported accounting data and financial statements as separate entities. After their closure, these three areas were consolidated under the title of Base Support. The financial statements presented here relate to these entities' unliquidated residual balances.

The Air Force Laundry and Dry Cleaning Service operated plants at five locations. These plants were government owned facilities. The service provided laundry, dry cleaning, and other textile services to Department of Defense (DoD) as well as other authorized activities and individuals worldwide. It was removed from the working capital fund October 1, 1994. It is currently financed by appropriated funds.

The Air Force Commissary services decapitalized as a working capital fund. The service was then capitalized under the Defense Commissary Agency. Residual assets, liabilities, and equity balances were included as part of the Base Support activity group at that time.

SARPMA provided maintenance support to DoD activities until it was disestablished in 1989. Unlike the other two activities, SARPMA no longer exists as either an organization funded by other than working capital funds, or as an activity under a different organization.

Footnotes

The Base Support activity group does not generate revenue nor incur expenses. Accounts receivable, accounts payable, other liabilities, and equity accounts continue to be liquidated and reported by the Base Support activity group. All field level accounting data is maintained manually. The Laundry and Dry Cleaning trial balance is prepared by personnel located Randolph AFB TX. The Air Force Commissary trial balance is maintained at DFAS Denver Center (DE) on the Departmental On-Line Accounting and Reporting System (DOLARS). And the SARPMA trial balance is also maintained at DFAS-DE in an Excel spreadsheet. DFAS-DE consolidates all this data for the preparation of monthly departmental-level financial statements.

C. Budgets and Budgetary Accounting:

Budgeted as a revolving fund, Air Force Laundry & Dry Cleaning and SARPMA were originally financed as industrial funds. The Air Force Commissary service, on the other hand, was originally financed as a stock fund. When DoD established the Defense Business Operations Fund on October 1, 1991 to expand the use of business-like financial management practices, Air Force Laundry & Dry Cleaning plus the Commissary services were included as business areas. SARPMA, on the other hand, had already been closed out. In October 1, 1994, DoD determined the Laundry & Dry Cleaning business area should be closed as a revolving fund and financed through Air Force operations and maintenance appropriation. In December 1995, DoD determined the Commissary service should be incorporated as part of the Defense Commissary Agency and financed by the Defense Working Capital Fund. As all of these activities are closed, they generate no revenue or expenses.

D. Basis of Accounting:

In general, the financial statements are presented on the accrual basis of accounting as required by the DoD Accounting Manual. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant. The action to combine the three former working capital funds has not materially impacted the reporting of residual account balances nor the financial statements.

E. Revenues and Other Financing Sources:

As a business fund activity, the entities identified as Air Force Base Support would recognize revenue at the point the rendered service was completed. But since it is now a closed activity, Air Force Base Support does not generate any revenue. (Note: These statements show $13K in revenue. However, this is not revenue generated from service rendered. The $13K represents collections made on the recovery of bad checks from the period of time when the Air Force Commissary was an active business.)

F. Accounting for Intra-governmental Activities: Not applicable

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

The unexpended balances of funds with Treasury for the activities identified as Air Force Base Support fall within the Air Force Component (.003) of fund resources maintained in U.S. Treasury accounts.

H. Foreign Currency: Not applicable

I. Accounts Receivable:

Generally, accounts receivable includes accounts, claims, and refund receivables. However, since the entities identified as Air Force Base Support are closed activities, the only receivables left on the books are accounts totaling $1,141M. This amount equates to $1,126M of refund receivables for Laundry and Dry Cleaning and $15K of refund receivables for SARPMA. The Commissary has no receivables left on the books. (Refer to Note 5 for breakdown of amount between intragovernmental and governmental.)

	(in thousands)		
Division	Amount	Allowance	Total Net
Accounts Receivable			
Government	$1,139	$0	$1,139
Public	2	0	2
Refunds	0	0	0
Claims	0	0	0
Total	$1,141	$0	$1,141

J. Loans Receivable: Not applicable

K. Inventory: Not applicable

L. Investments in U.S. Government Securities: Not applicable

M. Property and Equipment:

As closed working capital activities, all Air Force Base Support property and equipment has been transferred to the Defense Commissary Agency from the Air Force Commissary service and to the general fund under which they are currently financed for Laundry and Dry Cleaning..

N. Prepaid and Deferred Charges: Not applicable

O. Leases: Not applicable

P. Contingencies: Not applicable

Footnotes

Q. Accrued Leave: Not applicable

R. Equity:

Air Force Base Support has total invested capital of $20,393M. This equates to appropriations available of $268,434M, liabilities assumed of ($261,471M), and assets capitalized of $13,430M. The majority of this equity belongs to the Commissary activity.

Cumulative operating results for the year were $1,496M. This amount includes accumulated operating results $1,639M from the beginning of period with ($156K) of prior period adjustments and net operating results for the year of $13K. The prior period adjustments relate to collections and disbursements record in FY 1997, but are really applicable to the period prior to December 1995. The net operating results relates to the recovery of commissary bad checks also applicable to the period prior to December 1995.

S. Aircraft/Ship Crashes: Not applicable

T. Treaties for Use of Foreign Bases Not applicable

U. Comparative Data:

Comparative data for Air Force Base Support from FY 1996 CFO financial statements has been presented.

V. Undelivered Orders:

Air Force Base Support is obligated for goods and services which have been ordered but not yet received as of September 30, 1997. Aggregate undelivered orders as reported on the SF133, Report on Budget Execution, amounted to $15,495,988.27. This breaks down between the three activities as follows: for Commissary, undelivered orders (SF133, line 14C) equals $16,640,518.98; for Laundry and Dry Cleaning, undelivered orders (SF133, line 14C) equates to the refund receivable (DOD SGL 1315.1) of ($1,142,239); and for SARPMA, undelivered orders (SF133, line 14C) also equates to the refund receivable (DOD SGL 1315.1) of ($2,291.71).

NOTE 2. Fund Balances with Treasury:

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	$5,248	$0	$0	$5,248
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	20,385	0	0	20,385
Unfunded Contract Authority	0	0	0	0	0
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	$25,633	$0	$0	$25,633

B. Other Information:

The Treasury fund balance is reported at the Air Force component level (.003), not at the activity group (fund code) level.

The Treasury Balance, as reported on the AR(M)1307, breaks down as:

Funds Collected - Operating Program	($6)
Funds Disbursed - Operating Program	2,162
Funds with Treasury - Operating Program	23,902
Funds with Treasury - Capital Program	(425)
Treasury Balance	$25,639

NOTE 3. Cash, Foreign Currency and Other Monetary Assets: Not applicable

NOTE 4. Investments: Not applicable

Footnotes

NOTE 5. Accounts Receivable:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$1,139	$0		$1,139
Governmental	2	0		2
B. Non-Entity Receivables:				
Intragovernmental	$0	$0		$0
Governmental	0	0		0

C. Other Information:

Balance reported consists of only refund receivables: $15K for SARPMA and $1,126M for laundry & dry cleaning. The $1,126M represents base closure costs for Torrejon AB. The refund receivable was sent to the Base Closure Office for collection. If collection is deemed unlikely, the refund will be charged against accumulated operating results.

NOTE 6. Other Assets: Not applicable

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable

NOTE 8. Inventory, Net: Not applicable

NOTE 9. Work in Process: Not applicable

NOTE 10. Operating Materials and Supplies (OM&S), Net: Not applicable

NOTE 11. Stockpile Materials: Not applicable

NOTE 12. Seized Property: Not applicable

NOTE 13. Forfeited Property, Net: Not applicable

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable

NOTE 15. Property, Plant and Equipment, Net: Not applicable

NOTE 16. Debt: Not applicable

NOTE 17. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Noncurrent Liability	Current Liability	Total
1. Intragovermental Contingent Liabilities	$4,158	$0	$4,158
Total	$4,158	$0	$4,158

	Noncurrent Liability	Current Liability	Total
2. Governmental			
Total	$0	$0	$0

B. Other Information:

The Air Force Commissary Service residual account balances were moved to the Base Support business area for Fiscal Year 1995 reports. Other liabilities of $4,158M are contingent liabilities of the Commissary.

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

NOTE 18. Leases: Not applicable

NOTE 19. Pensions and Other Actuarial Liabilities:

Footnotes

The Base Support activity group transferred the liability for foreign national employee separation and retirement costs to the DoD Trust Fund and no longer has pension balances to report.

NOTE 20. Net Position:

	Revolving Funds	Trust Funds	Appro-priated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	20,393	0	0	20,393
C. Cumulative Results of Operations	1,496	0	0	1,496
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	$21,889	$0	$0	$21,889

G. Other Information:

Equity consists of invested capital, cumulative results of operations, and unexpended appropriations. Increases to invested capital are recorded when capital assets are acquired. Decreases occur as capital assets are depreciated or consumed in operations. The cumulative results of operations represent the excess of revenues over expenses since fund inception, less refunds to customers and returns to the US Treasury.

NOTE 21. Taxes: Not applicable

NOTE 22. Other Revenues and Financing Sources:

	1997	1996
A. Other Revenues and Financing Sources:		
Reimbursements	$0	$22
Total	$0	$22

B. Other Information:

Other revenue (reimbursements) for FY 1997 totaled $13K. This represents recovery or collection bad checks that had been made out to the commissary when it was an active Air Force organization. The AR(M)1307, SOP, Part I, shows the $13K on line 3, Other Revenue. The CFO statement shows the amount on line 2B, Revenue from Sales.

The discrepancy between the two statements on the placement of the $13K is due to the crosswalk of AF GLA 480.72 to the DOD account 5200. The Air Force account is titled "Other Income." It was matched with DOD account 5200 and directed to the AR(M)1307, SOP, Part I, line 3. It may have been more appropriate to crosswalk the Air Force account to DOD account 5910 (Misc. Reimbursements) in order for the amount to appear on the corresponding line of the CFO statement.

Since Base Support is a closed activity, it technically does not generate any revenue for current sales. The reimbursement for bad checks, however, could be considered recovery of revenue from the prior active period. Thus, placement of the amount on line 2b could be considered correct.

NOTE 23. Program or Operating Expenses: Not applicable

NOTE 24. Cost of Goods and Services Sold: Not applicable

NOTE 25. Other Expenses: Not applicable

NOTE 26. Extraordinary Items: Not applicable

NOTE 27. Prior Period Adjustments:

A. Prior Period Adjustments:

(1) Overstated Accounts Payable	($145)
(2) BOP Fund Balance Error	(11)
Total	($156)

Footnotes

B. Other Information:

The credit $156K represents corrections of errors between the AR(M)1307 and trial balance for FY 1996.

A review of the Sep 96 AR(M)1307, Statement of Financial Position revealed that Accounts Payable did not reflect the trial balance accounts. The SOFP was overstated by $145K from what was really reported in the trial balance. A prior period adjustment was made to reflect a correction.

The AR(M)1307, Statement of Cash Flow, line 23, Beginning Fund Balance, was incorrectly prepared for FY 1997. It showed line 23 at $23,489 which was the ending fund balance for August 1996. The correct Beginning Fund Balance should have shown $23,478 (the correct ending balance for September 1996). The difference of $11K was posted as a prior period adjustment in order to reflect a statement correction.

NOTE 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	1997	1996
(1) Transfers-In:	$0	$0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	0	22,454
(5) Total Increases	$0	$22,454

B. Decreases:	1997	1996
(1) Transfers-Out:		
To All Others w/o Reimbursement	$0	$3,450
(2) Donations	0	0
(3) Other Decreases	(1)	0
(4) Total Decreases	($1)	$3,450
C. Net Non-Operating Changes (Transfers):	($1)	$25,904

D. Other Information:

The amount of other decreases can be attributed to rounding.

NOTE 29. Intrafund Eliminations: Not applicable

NOTE 30. Contingencies: Not applicable

NOTE 31. Other Disclosures:

A. Statement of Cash Flows:

Since the Statement of Cash Flows contains no direct footnotes, comments about the statement are made here.

Other Adjustments, line 9, consists of (1) an accounts receivable adjustment of $145K, and (2) a beginning of period fund balance adjustment of $11K. (Reference Note 27 on prior period adjustments for a complete explanation.)

B. Negative Unliquidated Obligations:

Base Support WCF Funds	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$16	$2	($14)	12%
Negative Unliquidated Obligations*	0	0	0	0
Totals	$16	$2	($14)	12%

* Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding.

Footnotes

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

COMPONENT PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Component
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($61,265)	($47,575)
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	(12,505)	(12,220)
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)		
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments		
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work in Process (Note 9)		
f. Operating Materials/Supplies, Net (Note 10)		
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)		
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	($73,770)	($59,795)
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Component
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets		
3. Total Assets	($73,770)	($59,795)
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	($73,770)	($59,795)
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages		
(b) Annual Accrued Leave		
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Covered by Budgetary Resources:	($73,770)	($59,795)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Component
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)	198,515	
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources	$198,515	
6. Total Liabilities	$124,745	($59,795)
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations		
b. Invested Capital		
c. Cumulative Results of Operations		
d. Other		
e. Future Funding Requirements	(198,515)	
f. Total Net Position	($198,515)	
8. Total Liabilities and Net Position	($73,770)	($59,795)

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public		
b. Intragovernmental		
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)	149,107	
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$149,107	
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public		
b. Intragovernmental		
11. Depreciation and Amortization		
12. Bad Debts and Writeoffs		
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		
14. Other Expenses (Note 25)	149,107	
15. Total Expenses	$149,107	
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items		
17. Plus (Minus) Extraordinary Items (Note 26)		
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		

The accompanying notes are an integral part of these statements.

Principal Statements

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

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated		$206,199
20. Adjustments (Note 27)		
21. Net Position, Beginning Balance, as Restated		$206,199
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		
23. Plus (Minus) Non Operating Changes (Note 28)	(198,515)	(206,199)
24. Net Position, Ending Balance	($198,515)	

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Component
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	285	1,912
4. Decrease (Increase) in Other Assets		
5. Increase (Decrease) in Accounts Payable	(13,975)	(22,383)
6. Increase (Decrease) in Other Liabilities	198,515	
7. Depreciation and Amortization		
8. Other Unfunded Expenses		
9. Other Adjustments	(198,515)	(27,104)
10. Total Adjustments	($13,690)	($47,575)
11. Net Cash Provided (Used) by Operating Activities	($13,690)	($47,575)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment		
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)		
21. Add:		
a. Restorations		
b. Transfers of Cash from Others		
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others		179,095
23. Net Appropriations		($179,095)

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Component
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities		($179,095)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($13,690)	($226,670)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(47,575)	179,095
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($61,265)	($47,575)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid		

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

COMPONENT FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

DEPARTMENT OF THE AIR FORCE
DEFENSE WORKING CAPITAL FUND
FINANCIAL OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position, results of operations, and the cash flow of the Component level as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation.

B. Reporting Entity:

The Component level CFO statement was introduced to accommodate those transactions that were necessary and appropriate to bring the DWCF Consolidated statements into agreement with the U. S. Treasury records and reports. Adjustments were effected to Funds Collected, Funds Disbursed, and Funds with Treasury.

C. Budgets and Budgetary Accounting: Not applicable.

D. Basis of Accounting: Not applicable.

E. Revenues and Other Financing Sources: Not applicable.

F. Accounting for Intra-governmental Activities: Not applicable.

G. Funds with the U.S. Treasury and Cash: Not applicable.

H. Foreign Currency: Not applicable.

I. Accounts Receivable:

Reference Note 5.

J. Loans Receivable: Not applicable.

K. Inventory: Not applicable.

L. Investments in U.S. Government Securities: Not applicable.

M. Property and Equipment: Not applicable.

Footnotes

N. Prepaid and Deferred Charges: Not applicable.

O. Leases: Not applicable.

P. Contingencies: Not applicable.

Q. Accrued Leave: Not applicable.

R. Equity: Not applicable.

S. Aircraft/Ship Crashes: Not applicable.

T. Treaties for Use of Foreign Bases: Not applicable.

U. Comparative Data:

Comparative data for FY 1996 and FY 1997 are presented to provide an understanding of changes in financial position and operations.

V. Undelivered Orders: Not applicable.

NOTE 2. Fund Balances with Treasury:

A. Fund and Account Balances:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	$0	$0	$0	$0	$0
Restricted	0	0	0	0	0
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	0	(61,265)	0	0	(61,265)
Unfunded Contract Authority	0	0	0	0	0
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance	$0	($61,265)	$0	$0	($61,265)

The Treasury Balance, as reported on the AR(M)1307, breaks down as:

Footnotes

Funds Collected - Operating Program	$285
Funds Collected - Capital Program	0
Funds Disbursed - Operating Program	(13,975)
Funds Disbursed - Capital Program	0
Funds with Treasury - Operating Program	(47,575)
Funds with Treasury - Capital Program	0
Treasury Balance	($61,265)

NOTE 3. Cash, Foreign Currency and Other Monetary Assets: Not applicable.

NOTE 4. Investments: Not applicable.

NOTE 5. Accounts Receivable, Net:

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	($12,505)	$0	N/A	($12,505)
Governmental	0	0	N/A	0
B. Non-Entity Receivables:				
Intragovernmental	$0	$0	N/A	$0
Governmental	0	0	N/A	0

NOTE 6. Other Assets: Not applicable.

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable.

NOTE 8. Inventory, Net: Not applicable.

NOTE 9. Work in Process: Not applicable.

NOTE 10. Operating Materials and Supplies (OM&S), Net: Not applicable.

NOTE 11. Stockpile Materials: Not applicable.

Footnotes

NOTE 12. Seized Property: Not applicable.

NOTE 13. Forfeited Property, Net: Not applicable.

NOTE 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable.

NOTE 15. Property, Plant and Equipment, Net: Not applicable.

NOTE 16. Debt: Not applicable.

NOTE 17. Other Liabilities: Not applicable.

NOTE 18. Leases: Not applicable.

NOTE 19. Pensions and Other Actuarial Liabilities:

A. Pensions:

Air Force DWCF's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS), while 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 business areas finance a portion of pension benefits under these retirement systems but do no disclose the assets or actuarial data on the accumulated plan benefits or unfunded liabilities of their employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS and DoD for MRS. Air Force WCF reported total revenue and other expenses of $149,107 which includes retirement $103,358, health benefits $45,527, and life insurance of $222 (reference Notes 22 and 25).

B. Other Actuarial Liabilities:

Future Workers' Compensation (FWC) figures are provided by the Department of Labor. The liability for 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:

	1997
Year 1	6.24%
Year 2	5.82%
Year 3	5.60%
Year 4	5.45%
Year 5 and thereafter	5.40%

The Air Force Working Capital Fund liability for FWC benefits is $198,515.

NOTE 20. Net Position:

Reference Note 19. Line 7.e., Future Funding Requirements, is a contra related to the amount in Pensions and Other Actuarial Liabilities. It is for future worker's compensation benefits.

NOTE 21. Taxes: Not applicable.

NOTE 22. Other Revenues and Financing Sources:

		1997	1996
A. Other Revenues and Financing Sources:			
Imputed Pension and Other Retirement Benefits		$149,107	$0
(a) CSRS/FERS Retirement	$103,358	0	0
(b) Health Benefits	45,527		
(c) Life Insurance	222	0	0
Total		$149,107	$0

B. Other Information:

The $149,107 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.

NOTE 23. Program or Operating Expenses: Not applicable.

NOTE 24. Cost of Goods and Services Sold: Not applicable.

Footnotes

NOTE 25. Other Expenses:

		1997	1996
A. Other Expenses::			
Imputed Pension and Other Retirement Benefits		$149,107	$0
(a) CSRS/FERS Retirement	$103,358	0	0
(b) Health Benefits	45,527		
(c) Life Insurance	222	0	0
Total		$149,107	$0

B. Other Information:

The $149,107 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: Not applicable.

NOTE 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	1997	1996
(1) Transfers-In:		
(a)_____	$0	$0
(b)_____	0	0
(c)_____	0	0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	0	0
(5) Total Increases	$0	$0

Footnotes

B. Decreases:	1997	1996
(1) Transfers-Out:		
(a)_____	$0	$0
(b)_____	0	0
(c)_____	0	0
(2) Donations	0	0
(3) Other Decreases	(198,515)	(206,199)
(4) Total Decreases	($198,515)	($206,199)
C. Net Non-Operating Changes (Transfers):	($198,515)	($206,199)

D. Other Information:

The amount reported in B.(3), Other Decreases, is the changes in reported unfunded liability for worker's compensation.

NOTE 29. Intrafund Eliminations: Not applicable.

NOTE 30. Contingencies: Not applicable.

NOTE 31. Other Disclosures:

A. Statement of Financial Position:

The following lines on the CFO Statement of Financial Position do not equate to the AR(M)1307. Pensions and Other Actuarial Liabilities, Line 5.b.(4) and Future Funding Requirements, Line 7.e. The Net Position, Ending Balance does not change. (See Note 19 and Note 20).

Footnotes

B. Statement of Cash Flows:

The following lines on the CFO Statement of Cash Flows do not equate to the AR(M)1307. The Fund Balance, Ending, agrees with the AR(M)1307.

	CFO	AR(M)1307	Difference
Line 3 - Decrease (Increase) in Accounts Receivable	$285	$12,505	($12,220)
Line 5 - Increase (Decrease) in Accounts Payable	(13,975)	(73,770)	59,795
Line 6 - Increase (Decrease) in Other Liabilities	198,515	0	198,515
Line 9 - Other Adjustments	(198,515)	0	(198,515)
Line 21.b. - Transfers of Cash from Others	0	47,575	(47,575)
	(13,690)	(13,690)	0

The amounts reflected on the AR(M)1307 for Line 3 and Line 5 are the actual balances as of September 30, 1997 and not the difference between this year and last as reflected on the CFO statement.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

INFORMATION SERVICES PRINCIPAL STATEMENTS

Principal Statements

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$66,841	$15,096
(2) Investments, Net (Note 4)		
(3) Accounts Receivable, Net (Note 5)	45,555	40,731
(4) Interest Receivable		
(5) Advances and Prepayments		
(6) Other Federal (Intragovernmental) (Note 6)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)		
(2) Accounts Receivable, Net (Note 5)		
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)		
(4) Interest Receivable, Net		
(5) Advances and Prepayments	1	31
(6) Other Non-Federal (Governmental) (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Inventory, Net (Note 8)		
e. Work in Process (Note 9)	1,465	
f. Operating Materials/Supplies, Net (Note 10)	34	
g. Stockpile Materials, Net (Note 11)		
h. Seized Property (Note 12)		
i. Forfeited Property, Net (Note 13)		
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)		
k. Property, Plant and Equipment, Net (Note 15)	254	
l. War Reserves		
m. Other Entity Assets		
n. Total Entity Assets	$114,150	$55,858
2. Non-Entity Assets:		
a. Transactions With Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)		
(2) Accounts Receivable, Net (Note 5)		
(3) Interest Receivable, Net		
(4) Other (Note 6)		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)		
(2) Interest Receivable, Net		
(3) Other (Note 6)		
c. Cash and Other Monetary Assets (Note 3)		
d. Other Non-Entity Assets		
e. Total Non-Entity Assets		
3. Total Assets	$114,150	$55,858
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$159	($39)
(2) Interest Payable		
(3) Debt (Note 16)		
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	4,460	
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	11,571	40,480
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	2,624	3,047
(b) Annual Accrued Leave	5,207	
(c) Severance Pay and Separation Allowance		
(3) Interest Payable		
(4) Liabilities for Loan Guarantees (Note 7)		
(5) Lease Liabilities (Note 18)		
(6) Pensions and Other Actuarial Liabilities (Note 19)		
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	84,988	
c. Total Liabilities Covered by Budgetary Resources:	$109,009	$43,488

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Other Federal (Intragovernmental) Liabilities (Note 17)		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable		
(2) Debt (Note 16)		
(3) Lease Liabilities (Note 18)		
(4) Pensions and Other Actuarial Liabilities (Note 19)		
(5) Other Non-Federal (Governmental) Liabilities (Note 17)		
c. Total Liabilities Not Covered by Budgetary Resources		
6. Total Liabilities	$109,009	$43,488
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations		
b. Invested Capital	(5,179)	
c. Cumulative Results of Operations	10,320	12,370
d. Other		
e. Future Funding Requirements		
f. Total Net Position	$5,141	$12,370
8. Total Liabilities and Net Position	$114,150	$55,858

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used		
2. Revenues from Sales of Goods and Services		
a. To the Public		
b. Intragovernmental	349.542	174.994
3. Interest and Penalties, Non-Federal		
4. Interest, Federal		
5. Taxes (Note 21)		
6. Other Revenues and Financing Sources (Note 22)		
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		
8. Total Revenues and Financing Sources	$349.542	$174.994
EXPENSES		
9. Program or Operating Expenses (Note 23)		
10. Cost of Goods Sold (Note 24)		
a. To the Public		
b. Intragovernmental	341.920	162.619
11. Depreciation and Amortization		
12. Bad Debts and Writeoffs		
13. Interest		
a. Federal Financing Bank/Treasury Borrowing		
b. Federal Securities		
c. Other		5
14. Other Expenses (Note 25)		
15. Total Expenses	$341.920	$162.624
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$7.622	$12.370
17. Plus (Minus) Extraordinary Items (Note 26)	(3.530)	
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$4.092	$12.370

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$12.370	
20. Adjustments (Note 27)	(6.142)	
21. Net Position, Beginning Balance, as Restated	$6.228	
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	4,092	12.370
23. Plus (Minus) Non Operating Changes (Note 28)	(5.179)	
24. Net Position, Ending Balance	$5.141	$12.370

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$4,092	$12,370
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used		
3. Decrease (Increase) in Accounts Receivable	(4,826)	(40,731)
4. Decrease (Increase) in Other Assets	(1,469)	(31)
5. Increase (Decrease) in Accounts Payable	(28,711)	40,441
6. Increase (Decrease) in Other Liabilities	94,231	3,047
7. Depreciation and Amortization		
8. Other Unfunded Expenses		
9. Other Adjustments	(11,318)	
10. Total Adjustments	$47,907	$2,726
11. Net Cash Provided (Used) by Operating Activities	$51,999	$15,096
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment		
13. Purchase of Property, Plant and Equipment	(254)	
14. Sale of Securities		
15. Purchase of Securities		
16. Collection of Loans Receivable		
17. Creation of Loans Receivable		
18. Other Investing Cash Provided (Used)		
19. Net Cash Provided (Used) by Investing Activities	($254)	
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)		
21. Add:		
a. Restorations		
b. Transfers of Cash from Others		
22. Deduct:		
a. Withdrawals		
b. Transfers of Cash to Others		
23. Net Appropriations		

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Air Force Working Capital Fund - Information Services
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public		
25. Repayments on Loans to the Public		
26. Borrowing from the Treasury and the Federal Financing Bank		
27. Repayments on Loans from the Treasury and the Federal Financing Bank		
28. Other Borrowings and Repayments		
29. Net Cash Provided (Used) by Financing Activities		
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	$51.745	$15.096
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	15.096	
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$66.841	$15.096

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid		$5

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations		
35. Property Acquired Under Long-Term Financing Arrangements		
36. Other Exchanges of Non-cash Assets or Liabilities		

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUND

INFORMATION SERVICES FOOTNOTES TO THE PRINCIPAL STATEMENTS

Footnotes

Footnotes

NOTES TO THE FISCAL YEAR 1997 PRINCIPAL STATEMENTS AIR FORCE WORKING CAPITAL FUND INFORMATION SERVICES ACTIVITY GROUP PERIOD ENDING 30 SEPTEMBER 1997

Note 1. Significant Accounting Policies:

The Air Force Central Design Activities (CDAs) transferred to the Navy Industrial Fund Accounting System in FY 1997. Monthly reporting is accomplished through the Pensacola Operating Location and DFAS Cleveland. DFAS determined that since all accounting transactions and reporting were to be done through the Navy that DFAS Cleveland should be accountable for and certify all reports. Thus, the CFO statements and footnotes presented here were prepared by and certified by DFAS Cleveland.

As the CDAs remain a part of the Air Force Component, DFAS Denver requested from Cleveland a trial balance to incorporate in the Air Force CFO system for the preparation of the Air Force Component CFO statements. DFAS Cleveland did not provide a trial balance, but did provide Denver with copies of the September 1997 AR(M)1307 as well as CFO statements and footnotes. Therefore, we used this data to input the necessary information for the preparation of Air Force Component.

We prepared this statement (and any other comments in these footnotes) in italics to avoid any confusion with the notes prepared by DFAS Cleveland.

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the books and records of the Department in accordance with DoD Guidance on Form and Content of Financial Statements for FY 1994/1995 Financial Activity (as adopted from OMB Bulletin No. 94-01, "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 DoD pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity:

Department of Defense components use the Working Capital fund (WCF) to provide goods and services, on a reimbursable basis, to their customers. Within the Air Force Working Capital Fund, the Information Services Activity Group (ISAG) is being reported here. The ISAG further consists of two Central Design Activities (CDAs): the Materiel Systems Group (MSG) located at Wright-Patterson AFB, OH and the Standard Systems Group (SSG) located at Maxwell AFB-Gunter Annex, AL. The CDA's are authorized to perform: (a) development and operational sustainment of automated information and communications systems; (b) requirements analysis, system design, development, testing, integration, implementation support, and documentation services and (c) other authorized services or products for the Department of the Air Force and other agencies of the DoD. In addition, the CDA's may furnish these products or services to agencies of other

Footnotes

departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law. These CDA services may be performed either organically or through contractor support.

DFAS-CL - Effective December 1996, the Air Force Central Design Activity (CDA) business area reporting entity name was changed to Information Services Activity Group (ISAG) to reflect the name of the activity group under the Air Force Working Capital Fund (AFWCF) which is under the Defense Working Capital Funds (DWCF).

DFAS-CL - As of October 1, 1995, the Air Force CDA business area transferred to the Defense Business Operations Fund (DBOF). This transfer complied with PBD 433 in expanding the Information Systems Business Area. Prior to this transfer, the CDAs were funded by Air Force Operations and Maintenance Funds. During FY 1996, DFAS-Denver provided interim accounting support for the CDAs using the Air Force H069 accounting system. Effective FY 1997, the ISAG accounting support transferred to the Industrial Fund Accounting System (IFAS) located at the Pensacola Operating Location.

C. Budgets and Budgetary Accounting:

The Department's major activities consist of working capital (revolving) funds.

The Department expanded the use of business-like financial management practices through the establishment of the Defense Business Operations Fund ("the Fund") on October 1, 1991. The Fund operates with financial principles that enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial-type activities.

The Under Secretary of Defense (Comptroller) memorandum of 11 December 1996 eliminated the Defense Business Operations Fund and established four working capital funds. One of the four working capital funds is the Air Force. ISAG is part of the AFWCF.

Information Services Activity Group
Sales, Costs of Sales and Expenses,
and Net Operating Results by Division
(in millions)

Division	Sales	Cost of Sales and Expenses	Net Operating Results
Air Force	$349,542	$345,450	$4,092
Total	$349,542	$345,450	$4,092

Amounts shown are before intra-agency elimination's.

The fund recorded an operating profit of $4.092 million in fiscal year 1997.

D. Basis of Accounting:

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls of the use of federal funds.

Footnotes

The Information Services Activity Group (ISAG) recognizes revenue in one of two ways as a service type organization based on the Service Level Agreement between the customer and the provider. When the effort is priced on a "Level of Effort" basis, the revenue is recognized based on completed units (direct labor hours) times the stabilized rate plus any contract costs incurred by the activity. When the effort is priced on a "Firm Fixed Price" basis, the revenue is recognized each month as a percent of completion.

E. Revenues and Other Financing Sources:

For financial reporting purposes under accrual accounting, operating expenses for activities are recognized in the period incurred. Expenditures for capital and other long-term assets are not recognized as expenses until depreciated.

F. Accounting for Intra-Governmental Activities:

The Department, 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 Department as though the agency were a stand alone entity.

The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS also have varying coverage under Social Security. The Department 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.

Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS and the Department of Defense for MRS. In fiscal year 1997, the Department contributed the following amounts to the retirement plans and Social Security:

	(in millions)
CSRS	$2,430
FERS	1,658
MRS	0
Social Security	5,068

The Department also contributed $.643 million to the FERS Thrift Savings Plan on behalf of its participating employees.

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

The Department's fund resources are maintained in Treasury accounts. Its cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances. As of September 30, 1997, the Department had $66.841 million in funds with the Treasury.

H. Foreign Currency: Not applicable

I. Accounts Receivable:

Footnotes

As presented in the consolidated Statement of Financial Position, accounts receivable includes accounts, claims and refunds receivable from other entities. Allowances for uncollectible accounts are based upon analysis of collection experience by fund type.

	(in millions)		
	Amount	Allowance	Total Net
Accounts Receivable			
Government	$44.820	$0	$44.820
Public	0	0	0
Refunds	.735	0	.735
Claims	0	$0	0
Total	$45.555	0	$45.555

During fiscal year 1997, the Department wrote off approximately $0 million in uncollectible receivables.

J. Loans Receivable: Not applicable

K. Inventories: Not applicable

L. Investments in U.S. Government Securities: Not applicable

M. Property and Equipment:

Capital Equipment is valued at acquisition costs.

N. Prepaid and Deferred Charges:

Payments in advance are applicable to travel advances and recognized as expenditures and expenses when the related goods and services are received.

O. Leases: Not applicable

P. Contingencies: Not applicable

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 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:

Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are depreciated or consumed in operations.

S. Aircraft/Ship Crashed: Not applicable

T. Treaties for Use of Foreign Bases: Not applicable

Footnotes

U. Comparative Data:

Comparative data from FY 1996 CFO financial statements is provided.

V. Undelivered Orders:

The Department is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1997. Aggregate undelivered orders amount to $55,566 million as of September 30, 1997.

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

A. Working Capital Fund USD(C) and All Other Funds and Accounts:

	Entity Assets				
	Trust Funds	Revolving Funds	Appropriated Funds	Other Fund Types	Total
Unobligated Balances					
Available:					
Available		$66,841			$66,841
Restricted					
Reserve For Anticipated Resources					
Obligated (but not expensed)					
Unfunded Contract Authority					
Unused Borrowing Authority					
Treasury Balance		$66,841			$66,841

B. Other Information: None.

Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands): Not applicable

Note 4. Investments, Net (in thousands): Not applicable

Footnotes

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

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$45,555	$0		$45,555
Governmental				
B. Non-Entity Receivables:				
Intragovernmental				
Governmental				

C. Other Information: None

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands): Not applicable

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands): Not applicable

Note 8. Inventory, Net (in thousands): Not applicable

Note 9. Work in Process (in thousands):

	(1) Work In Process Amount	(2) Valuation Method
A. Work in Process:		
(1) In House	$1,465	
(2) Contractor	0	
(3) Other Government Activities	0	
(4) Government Furnished Material	0	
Total	$1,465	

Footnotes

B. Other Information:

This represents work which has not been recognized as revenue. DFAS-CL - The $1,465 represents direct costs held as Work In Process until the customer can be billed and revenue recognized, at which time the costs will be relieved from Work In Process via Cost of Goods Sold and recognized along with the associated revenue in the same period.

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

	(1) OM&S Amount	(2) Allowance for Losses	(3) OM&S Net	(4) Valuation Method
A. OM&S Categories:				
1. Held for Use	$34	$0	$34	
2. Held in Reserve For Future Use	0	0	0	
3. Excess, Obsolete, and Unserviceable	0	0	0	
Total	$34	$0	$34	

B. Restrictions on operating materials and supplies:

C. Other Information:

DFAS-CL - This represents material and other costs which cannot be identified to the proper job order or customer order because the order was closed or not yet established.

Note 11. Stockpile Materials, Net (in thousands): Not applicable

Note 12. Seized Property (in thousands): Not applicable

Note 13. Forfeited Property, Net (in thousands): Not applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands): Not applicable

Footnotes

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

Classes of Fixed Assets	(1) Depreciation Method *	(2) Service Life *
A. Land		
B. Structures, Facilities, & Leasehold Improvements		
C. Military Equipment		
D. ADP Software		
E. Equipment		
F. Assets Under Capital Lease		
G. Other		
H. Natural Resources		
I. Construction in Progress		
Total		

Classes of Fixed Assets	(3) Acquisition Value	(4) Accumulate Depreciation	(5) Net Book Value
A. Land			
B. Structures, Facilities, & Leasehold Improvements			
C. Military Equipment			
D. ADP Software			
E. Equipment			
F. Assets Under Capital Lease			
G. Other			
H. Natural Resources			
I. Construction in Progress	$254	$0	$254
Total	$254	$0	$254

*Keys

Depreciation Methods	Range of Service Life
SL-Straight Line	1-5 - 1 to 5 Years
DD-Double Declining Balance	6-10 - 6 to 10 Years
SY-Sum of the Years' Digits	11-20 - 11 to 20 Years
IN-Interest (Sinking Fund)	>20 - Over 20 Years
PR-Production (activity or use method)	
OT- Other (describe)	

Footnotes

J. Other Information:

DFAS-CL - The $254 recorded as Construction-in-Progress represents assets under development, which have not been completed or placed into use. Therefore, no depreciation has been recorded.

Note 16. Debt (in thousands): Not applicable

Note 17 Other Liabilities (in thousands):

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) Advances-Government		$4,144	$4,144
(2) Advances-Loans		0	0
(3) Progress Payments-WIP-In-House		0	0
(4) Progress Payments-Direct Material		0	0
(5) Progress Payments-Other Government		0	0
(6) Military Labor		316	316
(7) Incomplete Voyage Revenue		0	0
(8) Undistributed Cash Disbursements		0	0
(9) Accrued Reserve Revenue		0	0
(10) Miscellaneous Other Liabilities		0	0
Total		$4,460	$4,460
2. Governmental			
(1) Advances-Other		0	0
(2) Accrued Expenses-Other		84,988	84,988
(3) Progress Payments-Contractors		0	0
(4) Miscellaneous Other Liabilities		0	0
(5) Claims		0	0
Total		$84,988	$84,988

B. Other Information:

DFAS-CL - The $84,988 recorded as Accrued Expenses-Other represents accrued liabilities for contractual services.

Footnotes

C. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) Canceled Budget Authority			
(2)			
(3)			
Total			
2. Governmental			
(1) Canceled Budget Authority			
(2)			
(3)			
Total			

D. Other Information: None

Note 18. Leases (in thousands): Not applicable

Note 19. Pensions and Other Actuarial Liabilities (in thousands): Not applicable

Note 20. Net Position (in thousands):

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated	$0	$0	$0	$0
a. Available	0	0	0	0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	(5,179)	0	0	(5,179)
C. Cumulative Results of Operations	10,320	0	0	10,320
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	$5,141	$0	$0	$5,141

G. Other Information: None

Note 21. Taxes (in thousands): Not applicable

Footnotes

Note 22. Other Revenues and Financing Sources (in thousands): Not applicable

Note 23. Program or Operating Expenses (in thousands): Not applicable

Note 24. Cost of Goods Sold (in thousands):

A. Cost of Services Sold:	
(1) Beginning Work-in-Process	$0
(2) Plus: Operating Expenses	343,385
(3) Minus: Ending Work-in-Process	1,465
(4) Minus: Completed Work for Activity Retention	0
Cost of Services Sold	$341,920
B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):	
(1) Beginning Inventory L.A.C	$0
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	0
(3) Plus: Purchases at Cost	0
(4) Plus: Customer Returns-Credit Given	0
(5) Plus: DLR Exchange Credits	0
(6) Less: Inventory Losses Realized	0
(7) Less: Ending Inventory - L.A.C	0
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	0
(9) Less: Equity Transfers of Inventory to Others	0
(10) Plus: Equity Transfers of Inventory From Others	0
(11) Equals: Cost of Goods Sold from Inventory	$0
C. Cost of Goods Sold from Inventory (using Historical Cost):	
(1) Beginning Inventory	$0
(a) Plus: Purchases at Cost	0
(b) Plus: Inventory Gains	0
(c) Minus: Inventory Losses	0
(2) Less: Ending Inventory	0
Cost of Goods Sold	$0

D. Other Information: None

Note 25. Other Expenses (in thousands): Not applicable

Footnotes

Note 26. Extraordinary Items (in thousands)::

A. Extraordinary Items:

(1) Surcharges	$0
(2) Extraordinary Current Year Expense	0
(3) Reserve Balancing	0
(4) Fixed Asset Adjustments	0
(5) Passthroughs	0
(6) Refunds	0
(7) ACP Cumulative 1/12 Surcharge	0
(8) Redistribution	0
(9) Transfers	0
(10) Excess ACP Write-Off	0
(11) Military Labor Cost/Variance	(3,530)
Total	($3,530)

B. Other Information:

Represents the difference between military labor expensed and military labor accrued.

Note 27. Prior Period Adjustments (in thousands):

A. Prior Period Adjustments:

(1) Accounts Payable Transfer to Equity	$0
(2) Prior Year AOR Adjustments	(6,142)
(3) DLR Adjustment	0
(4) USD(C) Mode Prior Year Adjustment	0
(5) USD(C) Model Entry to Establish 1994 Balance	0
(6) USD(C) Model Used as a Balancing Entry	0
(7) AOR Adjustment - Transfer	0
Total	($6,142)

B. Other Information: None

Footnotes

Note 28. Non-Operating Changes - (Transfers and Donations)

	1997	1996
A. Increases		
(1) Transfers-In:		
(a) Transfer-Without Reimbursement - DBOF	$0	$0
(b) Transfer- Without Reimbursement - Capital DBOF	0	0
(2) Unexpended Appropriations	0	0
(3) Donations Received	0	0
(4) Other Increases	0	0
(5) Total Increases	$0	$0
B. Decreases		
(1) Transfers-Out:		
(a) Transfers to Govt. Agency Without Reimbursement	$0	$0
(b) Transfers to All Others Without Reimbursement		
(c) Transfers to Others Without Reimbursement-DBOF		
(d) Transfers to Others Without Reimbursement-Capital		
(2) Donations		
(3) Other Decreases	5.179	0
(4) Total Decreases	$5.179	$0
C. Net Non-Operating Changes (Transfers)	($5,179)	($0)

D. Other Information: None

Note 29. Intrafund Eliminations:

Schedule A: General Fund Sales to the General Fund

Not applicable to AFWCF-ISAG.

Schedule B: AFWCF-ISAG Sales to Other AFWCF Activity Groups

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force Working Capital Fund Information Services Activity Group	$0	$62,778	$0	$0
Total	$0	$62,778	$0	$0

Footnotes

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Air Force Working Capital Fund				
Depot Maintenance Activity Group	$0	$7,698	$0	$0
Supply Management Activity Group	0	54,394	0	0
Information Services Activity Group	0	686	0	0
Total	$0	$62,778	$0	$0

Schedule C: AFWCF-ISAG Sales to DoD Entities

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force Working Capital Fund				
Information Services Activity Group	$0	$205,570	$0	$0
Total	$0	$205,570	$0	$0

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Air Force GF	$0	$161,831	$0	$0
Army GF	0	645	0	0
Navy GF	0	306	0	0
Army WCF	0	0	0	0
Navy WCF	0	117	0	0
DLA WCF	0	4,939	0	0
DISA WCF	0	900	0	0
DFAS WCF	0	14,908	0	0
DeCA WCF	0	71	0	0
JLSC WCF	0	10,195	0	0
U.S. TRANSCOM WCF	0	136	0	0
Other Defense Organizations (OSD)	0	11,522	0	0
Total	$0	$205,570	$0	$0

Footnotes

Schedule D: AFWCF-ISAG SALES to Other Federal Government Entities

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Air Force Working Capital Fund Information Services Activity Group	$0	$81,194	$0	$0
Total	$0	$81,194	$0	$0

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Other Federal Government	$0	$81,194	$0	$0
Total	$0	$81,194	$0	$0

E. Other Information:

Information concerning intrafund eliminations related to Accounts Receivables, Unearned Revenue and Collections is not readily available in the financial systems supporting this activity group.

Note 30. Contingencies: Not applicable.

Note 31. Other Disclosures:

A. Unmatched Disbursements and Negative Unliquidated Obligations (in thousands): AFWCF-ISAG

	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	$2,364	$11,299	$8,935	+378%
Negative Unliquidated Obligations*	886	N/A	N/A	N/A
Totals	$3,250	$11,299	N/A	N/A

B. Other Information:

*Represents all negative balances not obligated including deferred items awaiting correction from paying station or awaiting funding. Information related to Negative Unliquidated Obligations is not readily available in the financial systems supporting this activity group.

Footnotes

C. Statement of Cash Flows:

Since the Statement of Cash Flows contains no direct footnotes, comments about this statement will be made here.

Certified CFO statements for the Air Force Central Design Activities are prepare by DFAS Cleveland. However, in order to include this information in the Air Force Consolidated statements, DFAS Denver had to import the Cleveland data into our CFO system. In most instances the Denver statements parallel the Cleveland statements. The exception is the Statement of Cash Flows, specifically the Increase (Decrease) in Other Liabilities (line 6) and Other Adjustments (line 9). The discrepancy between the two sets of statements for these lines may be due to crosswalk differences between the Cleveland and Denver CFO systems. However, the end result (Total Adjustments, line 10) remains the same.

	DFAS-CL SOCF	DFAS-DE SOCF	Difference
Increase (Decrease) in Other Liabilities	$89,055	$94,231	$5,176
Other Adjustments	(6,142)	(11,318)	(5,176)
Total	$82,913	$82,913	$0

DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

AUDIT OPINION

Audit Opinion

Audit Opinion

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

27 February 1998

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

1. Before Fiscal Year (FY) 1991, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1991, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering opinions on DBOF consolidated financial statements. In December 1996, The Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds. The Inspector General, DoD is responsible for auditing and rendering opinions on the financial statements, for FY 1997 and subsequent years, of the nine working capital fund reporting entities formerly reported under the DBOF. On 16 January 1997, the Inspector General, DoD delegated us the responsibility for auditing and rendering opinion on the FY 1997 Air Force Working Capital Fund financial statements. Therefore, we audited the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1997. The Defense Finance and Accounting Service (DFAS) and Air Force management prepared the accompanying financial statements in accordance with the Government Management Reform Act (GMRA) of 1994. Our audits of the principal financial statements resulted in six 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 controls 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 Working Capital Fund financial statements. As a result, we are unable to express an opinion on the reliability of the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1997. Financial information supporting these statements was not reliable and financial systems and processes,

Audit Opinion

as well as the associated internal control structure, were not adequate to produce reliable financial information. During FYs 1993 through 1996, the Office of the Under Secretary of Defense (Comptroller) did not identify the Air Force Working Capital Fund as a separate reporting entity requiring audit in accordance with the Chief Financial Officers Act of 1990. Therefore, we did not render an opinion on the accompanying financial statements for the fiscal year ended 30 September 1996.

3. The FY 1997 Air Force Working Capital Fund financial report presented figures from portions of the FY 1996 DBOF Consolidated Financial Statements for comparative purposes. We conducted audit work on the Air Force portion of the FY 1996 DBOF financial statements in support of the IG, DoD audit of the FY 1996 DBOF Consolidated Financial Statements. As a result, we did not render an opinion on the FY 1996 financial information used in the Air Force Working Capital Fund financial statements. The IG, DoD was unable to render an opinion on the FY 1996 DBOF Consolidated Financial Statements as a whole because of significant deficiencies in the accounting systems and the lack of a sound internal control structure. Our audit of the FY 1997 financial statements found, as in prior years, we could not verify account balances such as $24.5 billion in inventories and $1.4 billion of property, plant and equipment because Air Force supply systems are unable to account for inventories at cost and the Air Force depot maintenance system general ledgers are not transaction-driven. In addition, depot maintenance accounting policies do not follow percentage-of-completion accounting for revenues. However, our audits of depot maintenance found reported balances were materially accurate for the following: organic exchangeable item and engine overhaul revenues, organic direct material, and civilian payroll including related accruals.

REPORT ON INTERNAL CONTROLS

4. The internal control structure for financial reporting did not provide reasonable assurance of achieving the internal control objectives described in Office of Management and Budget (OMB) 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 provide a reasonable basis for determining material compliance with certain laws and regulations or for preventing material misstatements in the financial statements. Further, accounting systems contained significant design and internal control deficiencies that preclude assurance all transactions are processed accurately and systems only process valid transactions.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

5. Existing systems and controls did not enable the Air Force and DFAS to fully comply with laws and regulations that materially affect the financial statements. Accounting and non-accounting systems used to support the Air Force financial statements did not meet the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, Air Force financial systems did not comply with federal requirements for financial management systems and applicable federal accounting standards, and the US Government Standard General Ledger at the transaction level. Additionally, inventories and advances and prepayments are not valued, classified, or disclosed in accordance with Statements of Federal Financial Accounting Standards. Also, accounting practices did not ensure revenues and expenses were recorded in the appropriate year based on accrual accounting practices.

INITIATIVES TO IMPROVE FINANCIAL DATA

6. The Air Force, DoD, and DFAS continue taking actions to improve Air Force financial data accuracy and reporting. The Air Force plans to implement the Defense Industrial Fund Financial Management System (DIFMS) as the core financial accounting system for depot maintenance. A business process review at the Ogden Air Logistics Center started in February 1997 and implementation is scheduled for April 1999. The DIFMS provides a complete transaction-driven accounting system, including required subsidiary ledgers and registers and a fully automated general ledger. Supply management plans to implement the Integrated Logistics System-Supply (ILS-S) during FY 2000. Requirements for the base-level portion of ILS-S were completed in January 1998 and management is developing the operational requirements document to integrate the base and depot systems. In addition, DFAS has current initiatives to redesign the Standard Materiel Accounting System and the Financial Inventory Accounting and Billing System to implement Federal Financial Managers Improvement Act system requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

7. Management is responsible for

a. preparing annual financial statements in accordance with generally accepted accounting principles; OMB 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;

Audit Opinion

b. establishing and maintaining internal controls to provide reasonable assurance that the internal control objectives in OMB Bulletin 93-06 are met; and

c. complying with applicable laws and regulations.

8. 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.

9. 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.

10. 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.

11. We performed our work in accordance with generally accepted government auditing standards and the provisions of OMB Bulletin 93-06.

Jackie R Crawford
JACKIE R. CRAWFORD
The Auditor General

LAWS AND REGULATIONS

We reviewed significant provisions of the laws and regulations listed below.

Public Laws

Chief Financial Officers Act of 1990, Public Law No. 101-576, 104 Stat. 2838 (codified in various sections of 5 U.S.C., 15 U.S.C., 38 U.S.C., 42 U.S.C.).

Federal Managers' Financial Integrity Act of 1982, Pub L. No. 97-255, 96 Stat. 814, 31 U.S.C. ss1105, 1113, 3512 (1988).

Federal Financial Management Improvement Act of 1996, Public Law No. 104-208, Stat. 3009, 31 U.S.C. 3512.

OMB Bulletins and Circulars

OMB Bulletin 93-06, Audit Requirements for Federal Financial Statements, 8 January 1993.

OMB Bulletin 94-01, Form and Content of Agency Financial Statements, 16 November 1993.

OMB Bulletin 97-01, Form and Content of Agency Financial Statements, 16 October 1996.

Federal Accounting Standards

Statement of Federal Financial Accounting Standard Number 1, Accounting for Selected Assets and Liabilities, 30 March 1993.

Statement of Federal Financial Accounting Standard Number 3, Accounting for Inventory and Related Property, 27 October 1993.

Statement of Federal Financial Accounting Standard Number 7, Accounting for Revenues and Other Financing Sources, 10 May 1996.

Statement of Federal Financial Accounting Standard Number 4, Managerial Cost Accounting Concepts and Standards, October 1997.

DoD Guidance

DoD 7000.14-R, Financial Management Regulation, Volume 4, Accounting Policies and Procedures, January 1995.

DoD 7000.14-R, Financial Management Regulation, Volume 6, Reporting Policy and Procedures, February 1996.

DoD 7000.14-R Financial Management Regulation, Volume 11B, Reimbursable Operations, Policy and Procedures-Defense Business Operations Fund, December 1994.

DoD Guidance on Form and Content of Financial Statements for FY 1997 Financial Activity, October 1996.

Defense Finance and Accounting Service Directives

DFAS-DER 7420.1-R, Procedures in Support of Air Force Stock Fund, 15 December 1996.

Air Force Directives

AFM 23-110, Volume 2, USAF Supply Manual, April 1996.

AFM 67-1, USAF Supply Manual, Volume I, Part One, Basic Air Force Supply Procedures, 16 September 1996.

AFLCR 170-10, Depot Maintenance Service, Air Force Industrial Fund (DMS, AFIF) Financial Procedures, 30 January 1987.

ASSOCIATED AIR FORCE REPORTS OF AUDIT

Report Title	Report Number Date Issued
Expenses and Accounts Payable, Supply Management Business Area, Fiscal Year 1996	96068002 28 Nov 97
Air Force Defense Business Operations Fund Cash Management and Property, Plant, and Equipment, Fiscal Year 1996	96068011 30 Jul 97
Interim, Incremental Revenue Recognition Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1997	97068041 3 Feb 98
Selected Revenue Accounts, Depot Maintenance Activity Group, Air Force Working Capital Fund	97068001* 9 Feb 98
Budgetary Accounting, Air Force Working Capital Fund	97068019* 19 Feb 98
Selected Supply Management Activity Group Revenue and Expense Accounts, Air Force Working Capital Fund, Fiscal Year 1997	97068002**
Implementation of Federal Accounting Standards Advisory Board Standards, Air Force Working Capital Fund	97068017**
Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1997	97068021**

* Issued for comments.
** Report not yet issued to management for comments.

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ACTIVITIES CONTACTED DURING THE AUDIT

Organization

Headquarters United States Air Force

Assistant Secretary of the Air Force
(Financial Management and Comptroller)
(SAF/FM)

Air Combat Command

2d Bomb Wing
Barksdale AFB LA

5th Bomb Wing
Minot AFB ND

7th Logistics Group
Dyess AFB TX

9th Air Force
Shaw AFB SC

9th Logistics Group
Beale AFB CA

20th Air Base Wing
Shaw AFB SC

27th Logistics Group
Cannon AFB NM

28th Bomb Wing
Ellsworth AFB SD

49th Logistics Group
Holloman AFB NM

Air Combat Command (Cont'd)

55th Logistics Group
Offutt AFB NE

57th Logistics Group
Nellis AFB NV

347th Logistics Group
Moody AFB GA

355th Logistics Group
Davis Monthan AFB AZ

366th Logistics Group
Mountain Home AFB ID

509th Bomb Wing
Whiteman AFB MO

Air Education and Training Command

17th Training Wing
Goodfellow AFB TX

42d Air Base Wing
Maxwell AFB AL

47th Training Support Group
Laughlin AFB TX

56th Air Base Wing
Luke AFB AZ

71st Wing
Vance AFB OK

81st Training Wing
Keesler AFB MS

Air Education and Training Command (Cont'd)

82d Training Wing
Sheppard AFB TX

314th Air Lift Wing
Little Rock AFB AR

325th Wing
Tyndall AFB FL

619th Training Support Group
Randolph AFB TX

Air Force Materiel Command (AFMC)

HQ AFMC
Wright-Patterson AFB OH

Electronic Systems Center
Hanscom AFB MA

Ogden Air Logistics Center
Hill AFB UT

Oklahoma City Air Logistics Center
Tinker AFB OK

Sacramento Air Logistics Center
McClellan AFB CA

San Antonio Air Logistics Center
Kelly AFB TX

Warner Robins Air Logistics Center
Robins AFB GA

Air Force Materiel Command (AFMC) (Cont'd)

88th Air Base Wing
Wright-Patterson AFB OH

95th Air Base Wing
Edwards AFB CA

96th Air Base Wing
Eglin AFB FL

377th Logistics Group
Kirtland AFB NM

Air Force Space Command

21st Space Wing
Peterson AFB CO

30th Space Wing
Vandenberg AFB CA

45th Space Wing
Patrick AFB FL

90th Missile Wing
F.E. Warren AFB WY

341st Missile Wing
Malmstrom AFB MT

Air Force Special Operations Command

16th Special Operations Wing
Hurlburt Field FL

Air Mobility Command

6th Air Refueling Wing
MacDill AFB FL

Air Mobility Command (Cont'd)

22d Air Refueling Wing
McConnell AFB KS

60th Air Lift Wing
Travis AFB CA

62d Air Lift Wing
McChord AFB WA

89th Air Lift Wing
Andrews AFB MD

92d Air Refueling Wing
Fairchild AFB WA

305th Air Mobility Wing
McGuire AFB NJ

319th Air Refueling Wing
Grand Forks AFB ND

375th Air Lift Wing
Scott AFB IL

436th Air Lift Wing
Dover AFB DE

437th Air Lift Wing
Charleston AFB SC

Defense Finance and Accounting Service (DFAS)

DFAS-Denver Center
Denver CO

Defense Finance and Accounting Service (DFAS) (Cont'd)

DFAS-Dayton Operating Location
Dayton OH

DFAS-Honolulu Operating Location
Pearl Harbor HI

DFAS-Limestone Operating Location
Limestone ME

DFAS-Omaha Operating Location
Bellevue NE

DFAS-Orlando Operating Location
Orlando FL

DFAS-San Antonio Operating Location
San Antonio TX

DFAS-San Bernardino Operating Location
San Bernardino CA

Defense Accounting Office
Hill AFB UT

Defense Logistics Agency

Defense Reutilization and Marketing Service
Battlecreek MI

Office of Inspector General-Department of Defense

Office of the Assistant Inspector General
For Auditing, Finance and Accounting
Directorate (OAIG-AUD-FA)

Office of Inspector General-Department of Defense (Cont'd)

Office of the Assistant Inspector General
For Auditing, Finance and Accounting
Directorate, Denver Field Office (OAIG-AUD-FD)

Pacific Air Forces

3d Wing
Elmendorf AFB AK

8th Fighter Wing,
Kunsan AB, South Korea

15th Air Base Wing
Hickam AFB HI

18th Wing
Kadena AB, Japan

31st Fighter Wing
Aviano AB, Italy

35th Fighter Wing
Misawa AB, Japan

36th Air Base Wing
Anderson AFB, Guam

51st Fighter Wing
Osan AB, South Korea

354th Fighter Wing
Eielson AFB AK

374th Air Lift Wing
Yokota AB, Japan

United States Air Forces In Europe

39th Wing
Incirlik AB, Turkey

48th Fighter Wing
RAF Lakenheath, United Kingdom

52d Fighter Wing
Spangdahlem AB, Germany

86th Airlift Wing
Ramstein AB, Germany

100th Air Refueling Wing
RAF Mildenhall, United Kingdom

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OAIG-AUD-FA
OAIG-AUD-FC
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OAIG-AUD-APTS

ACC
AETC
AFIA
AFMC
AFOSI
AFRC
AFSOC
AFSPC
AMC
ANG
PACAF
USAFA
USAFE
Units/Orgs Audited

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AFPD 65-3 will make all decisions relative to release of this report to the public.

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Appendix C. Audit Process

Audit Work Performed. To fulfill our responsibilities under Public Law 101-576, the "Chief Financial Officers Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," we performed oversight of the independent audit conducted by the Air Force Audit Agency (AFAA) of the FY 1997 Air Force Working Capital Fund financial statements. Our purpose was to determine whether we could rely on the AFAA audit. As part of our oversight, we reviewed the AFAA audit approach and planning and monitored the progress of the audit at key points.

Reviewing the AFAA Approach. We used the "Federal Financial Statement Audit Manual," January 1993, issued by the President's Council on Integrity and Efficiency, and the "Financial Audit Manual," December 12, 1997 issued by the General Accounting Office, as the criteria for reviewing the AFAA audit. Specifically, we reviewed the documentation for the audit planning and strategy, general risk analysis, and other applicable memorandums for the Supply Management and Depot Maintenance business areas of the Air Force Working Capital Fund.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee and Integrated Audit Process Team, we provided a forum for a centrally managed exchange of guidance and information leading to a focused DoD-wide audit of the DoD Consolidated Financial Statements, including the supporting financial statements of major DoD Components. We also reviewed findings and recommendations from previous AFAA reports, which AFAA relied on for its FY 1997 opinion. In addition, we reviewed the results of FY 1997 AFAA audits in the Supply Management and Depot Maintenance areas of the Air Force Working Capital Fund.

In addition to the oversight procedures, we performed other procedures necessary to determine the fairness and accuracy of the AAA audit approach and conclusions. We reviewed findings and recommendations in previous AFAA reports.

Audit Period and Standards. We performed this financial statement audit from August 27, 1997, through February 27, 1998, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD. We did not use computer-processed data or statistical sampling procedures to conduct the audit.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD audit community. Further details are available on request.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Denver Center

Non-Defense Federal Organizations and Individuals

Inspector General, Department of Education
Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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