Audit Report

INSPECTOR GENERAL, DOD, OVERSIGHT OF THE AIR FORCE AUDIT AGENCY AUDIT OF THE FY 1999 WORKING CAPITAL FUND FINANCIAL STATEMENTS

Report No. D-2000-083 February 14, 2000

Office of the Inspector General
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Acronym

AFAA	Air Force Audit Agency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

February 14, 2000

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

SUBJECT: Audit Report on Inspector General, DoD, Oversight of the Air force Audit Agency Audit of the FY 1999 Air Force Working Capital Fund Financial Statements (Report No. D-2000-083)

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 disclaimer of opinion on the FY 1999 Air Force Working Capital Fund financial statements, along with the Air Force Audit Agency audit report, "Opinion on Fiscal Year 1999 Air Force Working Capital Fund Statements," February 9, 2000. 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. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. Byron B. Harbert at (303) 676-7405 (DSN 926-7405) (bharbert@dodig.osd.mil). See Appendix B 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. D-2000-083 **February 14, 2000**
(Project No. 0FD-2112)

Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1999 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 1999 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 1999 Air Force Working Capital Fund financial statements, along with the Air Force Audit Agency audit report, "Opinion on Fiscal Year 1999 Air Force Working Capital Fund Financial Statements."

Objective. Our objective was to determine the accuracy and completeness of the Air Force Audit Agency audit of the FY 1999 Air Force Working Capital Fund financial statements. See Appendix A for a discussion of the audit process.

Results. The Air Force Audit Agency audit report, "Opinion on Fiscal Year 1999 Air Force Working Capital Fund Financial Statements," February 9, 2000, states that the Air Force Audit Agency was unable to express an opinion on the reliability of the FY 1999 Air Force Working Capital Fund financial statements. We concur with the Air Force Audit Agency disclaimer of opinion; our endorsement of that disclaimer is Exhibit 1. The Air Force Audit Agency report is Exhibit 2.

Internal Control Structures 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. Audit Process

Scope

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 1999 Air Force Working Capital Fund financial statements. We reviewed the AFAA audit approach and planning and monitored audit progress at the key points.

Reviewing the AFAA Audit 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 approach. Specifically, we reviewed documentation for the audit planning and strategy, entity profile, general risk analysis, cycle memorandums, audit plans and programs, and other applicable documentation of the Air Force Working Capital Fund business areas.

Monitoring Audit Progress. Through the DoD Financial Statement Audit Executive Steering Committee, 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 AFAA reports, which AFAA relied on for its FY 1999 opinion.

In addition to the oversight procedures, we performed other procedures necessary to determine the fairness and accuracy of the AFAA audit approach and conclusions. We reviewed findings and recommendations in previous AFAA reports.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense established 2 DoD-wide corporate-level goals, 8 subordinate performance goals, and performance measures.

This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

- **FY 2001 Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.5.1)**

- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal:

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Auditing Type, Dates, and Standards. We performed this financial statement audit from October 27, 1999, through February 9, 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

Contacts During the Audit. We contacted individuals and organizations in the DoD audit community. Further details are available on request.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at http://www.gao.gov. Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil.

Appendix B. Report Distribution

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Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Denver Center
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
  National Security and International Affairs Division
    Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate on Committee 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 Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Exhibit 1. Inspector General, DoD, Endorsement Memorandum

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

FEB 14 2000

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 1999 Air Force Working Capital Fund Financial Statements (Project No. 0FD-2112)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Air Force Audit Agency (AFAA) the audit of the FY 1999 Air Force Working Capital Fund financial statements. Summarized as follows are the AFAA disclaimer of opinion on the FY 1999 Air Force Working Capital Fund financial statements and the results of our review of the AFAA audit. The information provided in this memorandum contains reasons for the AFAA disclaimer. We endorse the disclaimer of opinion expressed by AFAA.

Disclaimer of Opinion. The AFAA disclaimer of opinion on the FY 1999 Air Force Working Capital Fund financial statements, dated February 9, 2000, states that AFAA was unable to express an opinion on the financial statements. We concur with the AFAA disclaimer of opinion. The AFAA disclaimer of opinion concludes that financial information was unreliable and financial systems and processes, as well as associated internal control structures, were inadequate to produce reliable financial information, as indicated in the following examples:

- System limitations precluded the Air Force from providing sufficient audit trails to confirm the value and the in-transit inventory reported as part of inventory held for sale on the balance sheet statement.

- Air Force depot maintenance systems lacked a single transaction-driven general ledger for reliable financial reporting, did not follow the percentage-of-completion method of accounting, and continued to account for cost of goods sold and work-in-process at estimated amounts instead of at actual cost.

- The value of Air Force property, plant, and equipment reported on the financial statements continued to be unauditable.

- At the time of the audit, Air Force Depot Maintenance Activity Group accounting systems did not retain subsidiary ledgers and special journals created during the processing of accounting transactions.

Internal Controls. The AFAA determined that internal controls did not provide reasonable assurance that the FY 1999 Air Force Working Capital Fund financial statements contained no material misstatements. For example, the Air Force was unable to provide supporting documentation for $1.08 million in adjustments to the real property financial records, for $85.4 million in disbursement transactions, for sales transactions valued at

$64.6 million, and for $211.5 million in open obligations. Additionally, the Defense Finance and Accounting Service made $14.2 billion in unsupported monthly adjustments and $65.1 billion in unsupported year-end adjustments to the Air Force Working Capital Fund accounting records. The Air Force and the Defense Finance and Accounting Service recognized many of the financial reporting weaknesses and reported them in their FY 1999 Annual Statements of Assurance.

Compliance With Laws and Regulations. AFAA identified areas of noncompliance with laws and regulations. Under the Federal Financial Management Improvement Act of 1996, AFAA work showed that the financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal financial accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Details on the adequacy of internal controls and on compliance with laws and regulations are discussed in the AFAA report.

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

We reviewed the AFAA work on the FY 1999 Air Force Working Capital Fund financial statements from October 27, 1999, through February 9, 2000, in accordance with generally accepted Government auditing standards. We found no indication that we could not rely on the AFAA disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Exhibit 2. Air Force Audit Agency Audit Report, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements"

AIR FORCE AUDIT AGENCY

OPINION ON FISCAL YEAR 1999 AIR FORCE WORKING CAPITAL FUND FINANCIAL STATEMENTS

AUDIT REPORT

99068011

9 February 2000

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DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

9 February 2000

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

We were engaged to audit the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1999. The annual financial statements consist of the Balance Sheet and the related Statement of Net Cost, Statement of Change in Net Position, Statement of Budgetary Resources, and Statement of Financing. Preparation of these financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS) and Air Force management. This report presents our independent opinion on the financial statements, evaluation of the effectiveness of internal controls over financial reporting, and assessment of compliance with laws and regulations.

OPINION ON THE FINANCIAL STATEMENTS

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. Amounts reported in the consolidated financial statements and related notes may not provide a reliable source of information for decision making by the government or the public. Therefore, in accordance with *Government Auditing Standards* and the provisions of Office of Management and Budget (OMB) Bulletin, Audit Requirements for Federal Financial Statements, 22 July 1999, we are unable to express, and we do not express, an opinion on the reliability of the Air Force Working Capital Fund financial statements for the fiscal year ended 30 September 1999.

We base this disclaimer on the inability of the Air Force and DFAS to correct previously reported material deficiencies affecting the reliability of the Air Force Working Capital Fund financial statements. Both the Air Force and DFAS are continuing their efforts to improve financial reporting; however, financial systems and processes, as well as associated internal control structures, remain inadequate to produce reliable financial information. For example:

- Systems limitations precluded the Air Force from providing sufficient audit trails to confirm and value the in-transit inventory reported as part of inventory held for sale on the balance sheet statement.

- Air Force depot maintenance systems still require transition to a single transaction-driven general ledger, the percentage-of-completion method of accounting, and cost of goods sold and work-in-process reporting at actual rather than estimated amounts.

- The value of Air Force property, plant, and equipment (PP&E) reported on the financial statements continued to be unverifiable.

- Air Force Depot Maintenance Activity Group (DMAG) current accounting systems did not retain subsidiary ledgers and special journals created during the transaction accounting process.

These deficiencies materially affected information in the Air Force Working Capital Fund Fiscal Year (FY) 1999 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

The Required Supplementary Information for Deferred Maintenance is not a mandatory part of the Air Force Working Capital Fund principal financial statements, and we did not audit and do not express an opinion on such information. We did not apply certain procedures prescribed by professional standards because the information reported derives from the same data sources as the financial statements and, as such, may not provide a reliable source for the information.

FINANCIAL MANAGEMENT IMPROVEMENTS UNDERWAY

The Air Force, DoD, and DFAS continue actions to improve the Air Force Working Capital Fund financial data accuracy and reporting. Examples of on-going initiatives that should contribute to this goal are discussed below.

- The Air Force continues to design and implement an integrated depot-level and base-level supply system. When implemented, the system will have the capability, through subsidiary records, to account for inventory in-transit and to capture data necessary for inventory valuation at cost. The goal is to achieve full operational capability in FY 2002 for the base-level portion of the system.

- In the depot maintenance area, the Air Force continues efforts to implement corrections needed for depot maintenance systems to become Chief Financial Officers (CFO) Act compliant. When implemented, these systems will provide an automated transaction-driven general ledger, recognize revenue using percentage-of-completion methodology, track actual cost, and provide subsidiary support for account balances. The Air Force targeted FY 2001 to implement changes to the organic depot maintenance systems and FY 2002

for implementing re-engineering efforts to the contract depot maintenance systems.

- To address the valuation of PP&E assets, DoD and the Air Force hired contractors to assist management in assessing the existence, completeness, and valuation of assets recorded in databases. These efforts began in November 1998 and continued during FY 1999.

- The DFAS has current initiatives to improve the accuracy and timeliness of financial reporting. One of these initiatives is to replace the Departmental On-Line Accounting and Reporting System with the Defense Departmental Reporting System. Anticipated benefits of the new system include the standardization of the departmental reporting process and consolidation of CFO statements from a single system. The DFAS estimates implementation for this system in January 2001.

We believe these efforts are steps in the right direction and will resolve many existing system problems. We will continue working closely with management to address the material deficiencies precluding an unqualified audit opinion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that transactions are properly recorded, processed, and summarized to permit (a) financial statement preparation in accordance with generally accepted accounting standards, and (b) safeguarding assets against loss from unauthorized acquisition, use, or disposal. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any internal control evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Under auditing standards, a material weakness is a condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure over financial reporting that, in our judgment, could adversely affect the Air Force's ability to record, process, summarize, and report Working Capital Fund financial data.

Although we accomplished internal control testing, our financial statement audit objectives did not include providing a separate internal control opinion; accordingly, we do not express such an opinion. However, the OMB Bulletin, Audit Requirements for Federal Financial Statements, requires that we describe reportable conditions and

material weaknesses identified during the audit. Therefore, the following paragraphs summarize material weaknesses and reportable conditions that existed in the design or operation of the internal control structure over financial reporting in effect at 30 September 1999. Based on these weaknesses, we determined the internal control structure did not provide reasonable assurance of achieving the internal control objectives described in the OMB Bulletin, Audit Requirements for Federal Financial Statements. Most material weaknesses and reportable conditions presented in this report are the same as those included in prior year reports of audit on the Air Force Working Capital Fund financial statements. These weaknesses, along with recommended remedial actions, timeframe for corrective actions, and management comments, are more fully described in separate audit reports to Air Force and DFAS management.

Material Weaknesses

- Supporting Documentation.

  DFAS-Columbus did not provide supporting documentation for 67 ($85.4 million) of 345 ($399.5 million) disbursement transactions tested. (Draft Report of Audit 99068018, Air Force Working Capital Fund, Fiscal Year 1999, Collections and Disbursements)

  Air Force personnel did not provide supporting documentation for 554 ($64.6 million) of 1,000 ($109.3 million) Supply Management Activity Group sales transactions tested. (Draft Report of Audit 99068003, Supply Management Activity Group Sales and Accounts Receivable, Fiscal Year 1999)

  Air Force fund managers did not provide supporting documentation for 700 ($211.5 million) of 2,526 ($1.1 billion) open obligation transactions tested (such as undelivered orders outstanding, accounts payable, unfilled customer orders, and accrued expenses). (Draft Report of Audit 99068009, Budgetary Resources, Air Force Working Capital Fund, Fiscal Year 1999)

  Air Force property officers did not provide supporting documentation for $1.08 million in adjustments to the real property financial records. (Draft Report of Audit 99068002, Review of the Air Force Working Capital Fund Real Property, Fiscal Year 1999)

- Accounting Adjustments. The DFAS-Denver Center made $14.2 billion in unsupported monthly adjustments and $65.1 billion in unsupported year-end adjustments to Air Force Working Capital accounting records. (Office of the Inspector General, Department of Defense, Draft Report of Project 0FD-2112.01, untitled)

- Account Differences. The DFAS-Denver Center could not explain differences in disbursements and collections recorded in Air Force Working Capital Fund

accounting records and those recorded in US Treasury records. In FY 1999, the net unexplained monthly differences ranged from $497,300 to a negative $186,400,000 for individual activity groups of the Air Force Working Capital Fund. Therefore, the Air Force has no assurance that US Treasury disbursements and collections represent proper charges to the Air Force Working Capital Fund, or that disbursements and collections are properly recorded in the accounting records. (Office of the Inspector General, Department of Defense, Draft Report of Project 0FD-2112.01, untitled)

- Accounting Systems. The accounting systems used by the Air Force Working Capital Fund have not fully implemented the United States Government Standard General Ledger (USGSGL) at the transaction level for budgetary accounts. Therefore, instead of using budgetary accounts to prepare the Report of Execution, DFAS-Denver Center must rely on proprietary and statistical accounts and data that are not recorded in the accounting records. As a result, the amounts presented in the Report of Execution are not auditable. (Office of the Inspector General, Department of Defense, Draft Report of Project 0FD-2112.01, untitled)

Reportable Conditions

- Accounting Systems. Due to significant accounting system internal control weaknesses, neither DFAS nor the Air Force can ensure they properly record, process, and summarize only valid transactions and provide accurate information (Table 1). To prepare Air Force Working Capital Fund financial statements, much of the data feeding the Air Force and DFAS financial systems comes from non-financial systems, especially logistics systems. Therefore, the method for preparing financial statements is fragmented and complex due to lack of integrated, double-entry, transaction-driven general ledgers to compile and report reliable and auditable information. Normally, feeder system information is converted to financial information leaving an unauditable trail from transaction occurrence through accounting record recognition and, ultimately, to the financial statements. We believe this cumbersome compilation process could adversely affect the Air Force Working Capital Fund's internal control process, which is designed to provide reasonable assurance concerning the reliability of financial and performance reporting, as well as compliance with applicable laws and regulations.

Table 1 - 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		
Electronic Interface		X		X		X	X	X	X	X		
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	
Transaction Support				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 Documentation	X		X	X		X		X	X	X	X	
Computational Accuracy			X									
Data Usefulness		X		X		X	X	X				

D035A Item Manager Wholesale/Retail Requisition System
G004H Actual Material Cost System
D035J Financial Inventory & 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

Federal Financial Management Improvement Act of 1996 Review

With respect to management's disclosure of internal control material weaknesses in the agency's Federal Managers' Financial Integrity Act (FMFIA) report, we did not identify any material weaknesses related to financial reporting not previously covered in management's FMFIA report.

Status on Prior Year's Findings

Over the last 8 years, we identified numerous findings and made recommendations to improve internal controls related to financial reporting in the Working Capital Fund. We noted progress in several areas to correct the previously identified problems. For the most part, however, significant corrective actions are still in process. Appendix I identifies the prior report findings and recommendations we determined are uncorrected for FY 1999.

Performance Measure Information

With respect to internal controls related to performance measures reported in the overview to the principal statements and notes, we did not identify any control weaknesses in our limited review. However, we only obtained an understanding of the sources and controls related to performance measures; our work was not intended to determine whether controls were in place and working as designed.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Air Force management is responsible for complying with laws and regulations applicable to the Air Force Working Capital Fund. Issues that should concern management include compliance with laws and regulations pertaining to the objectives of Air Force Working Capital Fund programs and the activities, functions, and manner in which programs and services are to be delivered. Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws or regulations that cause us to conclude 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.

Our financial statement audit objectives did not include providing a separate opinion on overall compliance with laws and regulations, and accordingly, we do not express such an opinion.

The Secretary of the Treasury, Director of OMB, and Comptroller General of the United States established the Federal Accounting Standards Advisory Board in October 1990 to develop accounting standards to improve the usefulness of federal financial reports. Currently, these standards include 14 Statements of Federal Financial Accounting Standards (SFFAS) and three Statements on Federal Financial Accounting Concepts. During FY 1999, we determined whether Air Force and DFAS effectively implemented these standards.

Under the Federal Financial Management Improvement Act of 1996, we are required to report whether the agency's financial management systems substantially comply with the federal accounting standards, federal financial management systems requirements, and the USGSGL at the transaction level. We address the instances of noncompliance with these requirements below. In addition, these weaknesses, along with recommended corrective actions, timeframes for corrective actions, and management comments, are described in the cited supporting reports.

- **Statements of Federal Financial Accounting Standards (SFFASs)**. The financial management systems that supported the Air Force Working Capital Fund did not substantially comply with federal accounting standards. Specifically:

SFFAS No. 1, Accounting for Selected Assets and Liabilities. The DMAG recorded accrued liability and work-in-process costs based on estimated amounts instead of actual costs incurred. (Report of Audit 98068038, Contract Depot Maintenance Financial Processing, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1998, 12 July 1999)

SFFAS No. 3, Accounting for Inventory and Related Property. The DMAG recorded the value of operating materials and supplies at current stock list unit prices instead of historical cost. (Report of Audit 97068017, Compliance with Federal Financial Accounting Standards Numbers 1 and 3, 15 September 1998)

SFFAS No. 6, Accounting for Property, Plant, and Equipment. Air Force Working Capital Fund entities did not record all costs incurred in valuing PP&E assets. (Report of Audit 98068002, Air Force Depot Maintenance Property, Plant, and Equipment, 16 July 1999; and Report of Audit 98068038, Contract Depot Maintenance Financial Processing, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1998, 12 July 1999)

SFFAS No. 7, Accounting for Revenue and Other Financing. The DMAG recorded revenue based on completed units instead of the percentage-of-completion method. (Memorandum Audit Report 98068006, Depot Maintenance Activity Group, Air Force Working Capital Fund, 12 March 1999; and Report of Audit 98068038, Contract Depot Maintenance Financial Processing, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1998, 12 July 1999)

- **Federal Financial Management Systems Requirements**. The financial management systems that support the Air Force Working Capital Fund did not substantially comply with federal financial management system requirements to:

  -- Maintain adequate subsidiary records for audit trails in Air Force and DFAS financial management systems;

  -- Implement Air Force DMAG systems with general ledgers that are transaction driven; and

  -- Provide adequate application controls to critical Air Force feeder systems such as separation of duties, support for transactions, transaction controls, and data reconciliation. We address these application control deficiencies more fully in Table 1, page 6 of this report.

- **USGSGL at the Transaction Level**. For FY 1999, Air Force and DFAS managers did not implement the USGSGL at the transaction level. The DFAS plans to incorporate the Standard General Ledger in the Defense Industrial Financial Management System scheduled for implementation in October 2000 at the Ogden Air Logistics Center. The Air Force also plans to implement the Standard General Ledger in the re-engineering of its contract depot maintenance systems.

The Air Force acknowledged, in its management representation letter for the FY 1999 Working Capital Fund financial statements, that Air Force financial management systems contain several departures from federal accounting standards. The Air Force is working hard to correct these problems, but will require several years to achieve substantial progress on the issues.

OBJECTIVE, SCOPE, AND METHODOLOGY

Management is responsible for:

- Preparing the annual financial statements in conformity with applicable accounting principles,

- Establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of the FMFIA are met, and

- Complying with applicable laws and regulations.

The Air Force Audit Agency (AFAA) is responsible for:

- Planning and performing an audit to obtain reasonable assurance about whether the principal financial statements are reliable (free of material misstatement) and presented fairly in conformity with OMB Bulletin 97-01, Form and Content of Agency Financial Statement, 16 October 1996, as amended 20 November 1998, and applicable accounting principles;

- Obtaining reasonable assurance about whether relevant management internal controls are in place and operating effectively; and

- Testing management's compliance with selected provisions of laws and regulations and perform limited procedures to test the consistency of other information presented in the annual financial statement with the consolidated financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;

- Assessed the accounting principles used and significant estimates made by management;

- Evaluated the overall presentation of the financial statements;

- Tested compliance with selected provisions of laws and regulations;

- Obtained an understanding of the internal control design, determined whether internal controls were placed in operation, assessed control risk, and performed tests of the reporting entity's internal controls; and

- Followed up on previously reported deficiencies.

In reviewing the Air Force Working Capital Fund consolidated financial statements, we evaluated internal controls to determine the reliability of financial and performance reporting related to the principal statements, accompanying footnotes, and performance measures.

In the area of financial reporting, we determined whether Air Force and DFAS personnel properly recorded, processed, and summarized transactions to permit the preparation of financial statements in accordance with federal accounting standards. We also evaluated the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; obtained an understanding of the design of internal controls; determined whether they were in operation; assessed control risk; and tested controls.

In the area of performance measures, we obtained an understanding of the internal control design related to the existence and completeness assertions relevant to the performance measures included in the overview accompanying the Air Force Working Capital Fund financial statements.

We obtained audit assistance from the Inspector General, Department of Defense (DoDIG). The DoDIG Denver Field Office assisted us in reviewing the DFAS-Denver Center's compilation of the FY 1999 Air Force Working Capital Fund financial statements. We believe our audit work and the work of the DoDIG provide a reasonable basis for our audit opinion.

We accomplished the audit from January to December 1999 at the Office of the Secretary of the Air Force, Financial Management and Comptroller; DFAS locations (DFAS centers and DFAS operating locations); Headquarters Air Force Materiel Command; and Air Force active duty units. We listed specific locations in separate audit

reports issued to Air Force and DFAS management. We provided a draft report to management in February 2000.

SUMMARY OF PRIOR AUDIT COVERAGE

The General Accounting Office, DoDIG and the AFAA, have conducted multiple reviews related to financial management issues. We issued a disclaimer on the FY 1998 Air Force Working Capital Fund Financial Statements. The GAO reports can be accessed over the Internet at http://www.gao.gov; DoDIG reports can be accessed at http://www.dodig.osd.mil; and AFAA reports can be accessed at http://www.afaa.af.mil.

We appreciate the cooperation and courtesies extended to our auditors.

Jackie R Crawford

JACKIE R. CRAWFORD
The Auditor General

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AIR FORCE WORKING CAPITAL FUND UNCORRECTED MATERIAL FINDINGS FROM PRIOR AUDIT REPORTS

PRIOR PROJECT NO.	TITLE AND DATE	FINDING AND RECOMMENDATION
AFAA Report of Audit 93068010	Financial Reporting of Fiscal Year 1993 Property, Plant, and Equipment Within the Depot Maintenance Service and Supply Management Business Areas, 1 July 1994	This report addressed ineffective internal controls that resulted in understating PP&E $1.2 billion, the lack of subsidiary records and source documentation to support asset values, and the inconsistent application of accounting policies concerning donated assets. The report recommended that AFMC and DFAS implement procedures to ensure compliance with DoD Financial Management Regulation guidance.
AFAA Report of Audit 93068004	Internal Control and Management Issues Related to Air Force Depot Maintenance Service Fiscal Year 1992 Financial Statements, 17 December 1993	This report addressed inadequate controls to report Depot Maintenance Business Area revenues accurately. The report recommended the AFMC Financial Manager, in coordination with Logistics and DFAS personnel, establish procedures to implement the percentage-of-completion revenue recognition method for Air Force depot maintenance activities in Fiscal Year 1993.
AFAA Report of Audit 93068006	Financial Reporting of Fiscal Year 1993 Inventories Not Held for Sale Within the Depot Maintenance Service Business Area, 8 August 1994	This report addressed the overstatement of work-in-process and progress billings. The report recommended that DFAS present progress billings on the statement of financial position as a reduction to the work-in-progress asset account.
AFAA Report of Audit 94068039	Review of Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1994, 28 July 1995	This report addressed equipment balances that did not include all equipment owned by the DMAG and the lack of subsidiary ledgers and detailed records to summarize and support asset valuation. The report recommended that AFMC require the Air Logistics Centers to report all equipment in the Depot Maintenance Equipment Program System (G017) and establish appropriate detailed records for all assets.
AFAA Report of Audit 94068038	Review of the Air Force Defense Business Materiel Accounting System, Reparable Support Division, 28 June 1995	This report identified that DFAS did not have an effective program to download Standard Base Supply System transaction history records. Specifically, the program only allowed the selection of transactions in 15-day intervals, and its use would require multiple computer-intensive "runs" to generate transaction data in excess of 15 days. Also, the program selection criteria only permitted the selection of all Reparable Support Division transactions and did not allow selection of any subset of the division's transaction universe. This report recommended modifying the Standard Base Supply System program to permit a more flexible record selection criteria and the capability to select transaction records for at least 90 days
AFAA Report of Audit 94068039	Review of Selected Accounts, Depot Maintenance Service Business Area, 28 July 1995	This report addressed the valuation of floating stock assets. The DFAS adjusted the value of the floating stock assets based on supply management changes to the unit cost for those individual stock numbers and did not maintain the value at historical cost The report recommended AFMC/LG discontinue increasing or decreasing the value of floating stock assets based on Supply Management changes in unit cost.

PRIOR PROJECT NO. (Cont.)	TITLE AND DATE (Cont.)	FINDING AND RECOMMENDATION (Cont.)
AFAA Report of Audit 95068021	Review of Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1995, 13 September 1996	This report addressed the understatement of reported PP&E amounts and the lack of adequate subsidiary records to support reported computer software. We also reported PP&E general ledger balances did not reconcile to subsidiary account balances. The report recommended that AFMC/LG reemphasize to depot maintenance activities the DoD policy to report equipment financed by resources other than DMAG, establish procedures for reporting computer software, and reconcile general ledger balances to subsidiary account balances.
AFAA Report of Audit 95068021	Selected Accounts, Depot Maintenance Service Business Area, Fiscal Year 1995, 13 September 1996	This report addressed percentage-of-completion revenue recognition and customer billing issues affecting contract depot maintenance accounts. The report also identified improper cost recognition methods impacting the accrued liability, work-in-process, and cost of goods and service sold accounts. The report recommended the Director, DFAS (1) establish procedures and identify data sources to properly compute percentage-of-completion revenue, (2) establish cost accumulation procedures to properly classify customer billings as progress billings and unearned revenues, and (3) redesign the Contract Depot Maintenance Production and Cost System (G072D) to recognize and report costs incurred against customer orders at actual amounts.
AFAA Report of Audit 96068001	Selected Asset, Liability, and Expense Accounts, Depot Maintenance Service Business Area, Fiscal Year 1996, 20 August 1997	This report addressed system and control deficiencies related to materials in transit to contractor facilities, contractor reporting, and government-furnished materials authorizations. The report recommended AFMC (1) develop a transaction-based accounting system with adequate system edits to match shipment and receipt transactions and properly record transactions at the correct amounts, (2) establish automated capability to analyze contractor reporting and identify outstanding in transit transactions, and (3) curtail authorizing government-furnished materials to DMAG contractors and require the contractor to purchase and provide the materials for the contracted maintenance services.
AFAA Report of Audit 96068009	Government Furnished Material and End Item Transaction Reporting System (G009), 12 November 1996	This report addressed improper valuation of operating materials and supplies. The report recommended AFMC include in the ongoing G009 redesign project a requirement to value operating materials and supplies at historical cost using an appropriate inventory method.
AFAA Report of Audit 98068040	Air Force Working Capital Fund, Fiscal Year 1998 Statement of Budgetary Resources	This report identified inadequate internal controls to prevent over-obligations, ensure proper obligation documentation was maintained and systems retained financial data to support year-end-balances. The report made seven recommendations to strengthen internal controls, and thus, improve accounting systems and the accuracy of reported balances on the Statement of Budgetary Resources.

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office Of The Assistant Secretary

07 FEB 2000

MEMORANDUM FOR SAF/AG

FROM: SAF/FM

SUBJECT: Management Comments to the Air Force Audit Agency (AFAA) Draft Report of Audit, Fiscal Year 1999 Air Force Working Capital Fund Opinion Report (Project 99068011)

We appreciate the opportunity to review and comment on this report. Since the underlying audit reports supporting this opinion report have not yet been provided for our review, our comments on this report are limited. Upon reviewing the underlying reports, we may request modifications to the findings and recommendations contained therein, which, in turn, may affect your presentations in this opinion report.

We acknowledge that you are unable to express an opinion on the reliability of the principal statements for fiscal year 1999. In the accompanying footnotes to those statements, we identified many of the underlying causes for questionable account balances. Recognizing the challenges presented by these problems, we are working aggressively with you, the Defense Finance and Accounting Service (DFAS), and other Air Force functional communities to identify the extent of the problems and develop and implement plans for correcting them. As you indicated in this report, many of these initiatives are well under way and we feel that significant progress is being made. Additionally, we are actively supporting the Office of the Under Secretary of Defense (Comptroller) initiatives, which address areas such as real and personal property valuation highlighted in your report.

The Air Force remains committed to improving financial management processes and the associated financial management systems as quickly as possible. We look forward to the time when the results of our efforts will be reflected in our financial statements.

Robert F. Hale

ROBERT F. HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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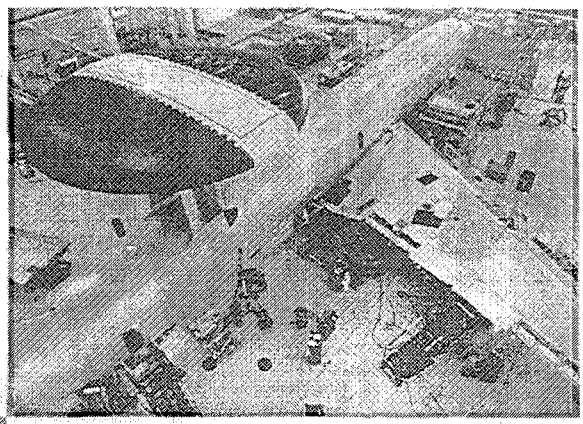
UNITED STATES AIR FORCE

ANNUAL FINANCIAL STATEMENT

WORKING CAPITAL FUNDS



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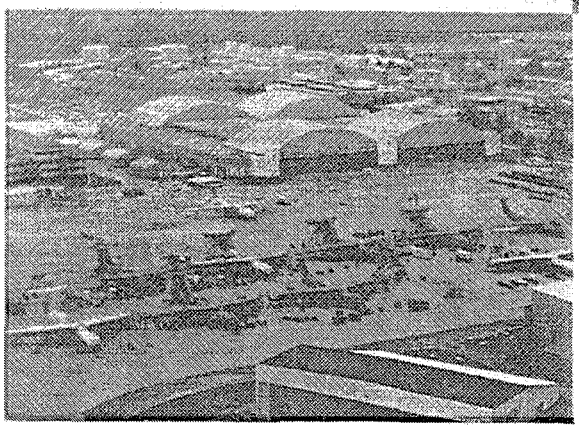

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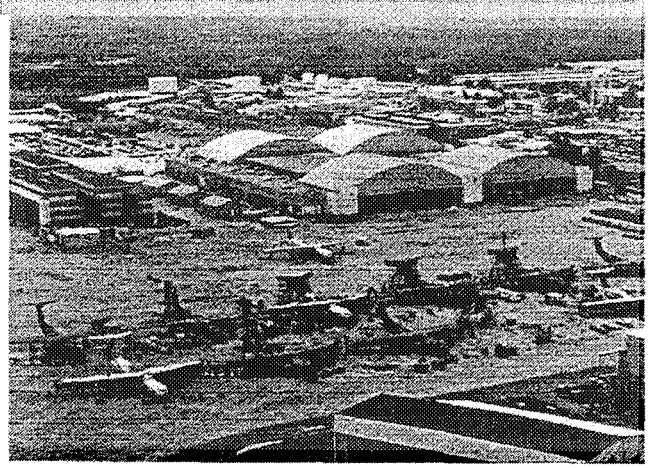
"A working capital fund is an account or fund in which all income is derived from its operations and is available to finance the fund s continuing operations without fiscal year limitation."

Source Congressional Research Service The Library of Congress



MESSAGE FROM THE COMMANDER, AIR FORCE MATERIEL COMMAND

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

Message from the Commander, Air Force Materiel Command

In FY99 there was continued improvement in the financial performance of the Air Force Working Capital Fund, particularly the 05 percent we manage as Air Force Materiel Command. The transition we started two years ago to operate our business activities using a cost management philosophy is beginning to pay dividends. Additionally, we have continued to make good progress toward compliance with the Chief Financial Officers (CFO) Act which requires us to produce accurate complete and timely financial statements for the Air Force. Also, performance goals were set in place to better manage our activities and to work towards meeting the requirements of the Government Performance and Results Act.

As you will see in this report and only some have great strides. Financially, there was marked improvement in the performance indicators for the three activities we manage in Air Force Materiel Command: the Supply Management Activity Group (SMAG), the Depot Maintenance Service Group (DMAG), and the Information Services Activity Group (ISAG). Performance for these activities was in agreement with the performance goals set for FY99. This is especially significant considering the scope of the support the SMAG and DMAG provided to the combat forces in FY99, more notably during Operation Allied Force in Kosovo. In addition to increasing depot maintenance production by over 500 thousand hours, we were able to significantly reduce supply management logistics response time and increase readiness spares availability to the highest level since the early 80s. Although our all support to operations in Kosovo was a success, we still have a tremendous obligation to fix the supply parts pipeline. The Air Force spare parts problems are serious. They have impacted readiness and placed great pressure on maintenance and operations personnel. Actions to correct these problems are in place and we expect to see improvements in FY00.

Testing our logistics systems in war and in Kosovo provided some valuable "lessons learned" that will greatly aid us in leading the systems and processes needed to be more responsive to our expeditionary aerospace forces. Newly established Supply Chain Management concepts provide the framework for greatly enhanced accountability and responsiveness, with a goal of adopting the best commercial business practices. In the future, our supply chain managers will employ proven inventory and cost management techniques to ensure responsive support while reducing costs. Another initiative we put in place is a back to basics program that centralizes the focus on technical compliance in our depot maintenance activities—the result will be higher quality products for the customer units.

To further support Air Force efforts to become CFO compliant, we created an integrated process team (IPT) to identify and fix continued unique problems that blocked the path to CFO compliance. One IPT is a subgroup of the Larger Air Force IPT whose goal is CFO compliance for all Air Force financial statements.

FY00 is certain to be another year filled with challenges and opportunity. Our goal is to accept those challenges and make things better for our Air Force, and our great Nation.

[illegible]
General, USAF

MESSAGE FROM THE ASSISTANT SECRETARY OF THE AIR FORCE FINANCIAL MANAGEMENT AND COMPTROLLER

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1130

OFFICE OF THE ASSISTANT SECRETARY

February 2000

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

I am pleased to present the Air Force financial statements for our Working Capital Funds for Fiscal Year 1999 These statements fulfill the requirements of the Chief Financial Officers Act and portions of the requirements of the Government Performance and Results Act.

The statements display the financial and performance measures associated with the three major business areas within our working capital funds -- supply, depot maintenance, and information systems. In FY99 the three major business areas **met almost all their financial goals** and many of their performance goals Overall it was a good year for the funds. Their accomplishments are all the more impressive because of the contribution they made to the Air Force mission in FY99. The business activities that are included in our working capital funds delivered spare parts and made other contributions that were critical to the success of Operation Allied Force in the Balkans.

We also made **progress toward improved financial management** in the working capital funds. During FY99 managers got more timely financial reports, and wider use was made of the Keystone system that provides supply managers with valuable data on revenues and expenses. We are approaching initial operating capability of a major new depot accounting and production system called the Depot Maintenance Accounting and Production System (DMAPS). This system will comply with the Chief Financial Officers Act and, more important, will provide the managers of our depots with timely data on the actual cost of repairing weapons.

The working capital funds are also excellent examples of **GPRA in action in the Air Force.** The Government Performance and Results Act (GPRA) requires that managers establish performance measures, set goals using those measures, and then use the measures and goals for day-to-day management as well as for year-end reporting. Consistent with the requirements of GPRA, this statement compares year-end results to our goals using the same measures that senior managers regularly employ to judge the health of our working capital funds.

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

Robert F. Hale

ROBERT F HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

[FOUNDATIONS]

Vision

Air Force people building the world's most respected Aerospace force—global power and reach for America.

Mission

To defend the United States through control and exploitation of air and space

This short statement condenses the multifaceted missions of the United States Air Force. These mission elements range from fundamental elements of organizing, training and equipping aerospace forces to support the war fighting Commanders-In-Chiefs (CINCs) to providing humanitarian and peace keeping support, to expanding the boundaries of operations in space and information warfare.

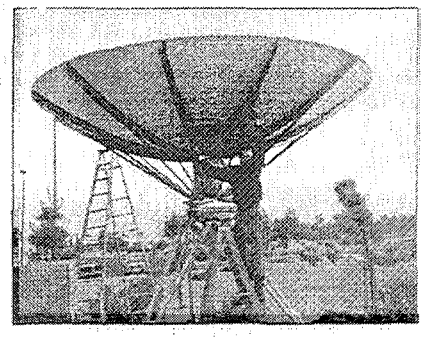
Core Values

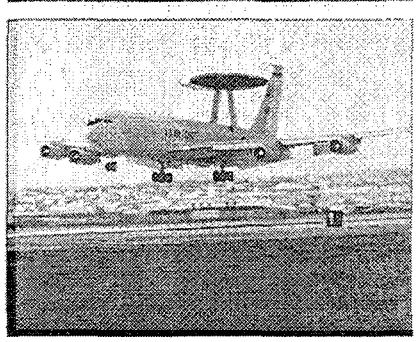
- **Integrity First**
- **Service Before Self**
- **Excellence In All We Do**

Ultimately the success of any military power rests on the collective values of the women and men who serve. These values are the foundation of the Air Force Vision and Mission Like only a few other segments of our society, the Air Force has clearly stated and published the Core Values that bind its members, from the basic recruit to the most senior officer. America's Air Force is proud of its' people who readily accept these institutional values, including unlimited liability, to defend the vital interests of the United States The Air Force's Vision Mission, and Core Values work together to produce the Core Competencies that define our professional expertise and practice

Core Competencies

- **Air and Space Superiority**
- **Global Attack**
- **Rapid Global Mobility**
- **Precision Engagement**
- **Information Superiority**
- **Agile Combat Support**





[INTRODUCTION]

Air Force Working Capital Fund Concept

"A working capital fund is an account or fund in which all income is derived from its operations and is available to finance the fund's continuing operations without fiscal year limitation."

Congressional Research Service, The Library of Congress

The Working Capital Funds (WCF) allow the Air Force to do the following:

- ▲ Establish strong customer-provider relationships
- ▲ Identify the total cost of providing support products and services
- ▲ Focus management attention on net results, including costs and performance
- ▲ Ensure readiness through reduced support costs, stabilized rates, and customer service

The Air Force Working Capital Fund is managed primarily through the following activity groups:

Supply Management Activity Group (SMAG)

Established to provide spare parts and associated logistics support services to fulfill USAF needs in war and peace. The SMAG acquires inventories and repairs those inventories with funds received from prior sales to customers. The group pays operating costs from the revenue of sales.

The SMAG is comprised of six divisions The Materiel Support Division (MSD), General Support Division (GSD) and Fuels Division are all managed by AFMC Medical/Dental Division, Troop Support Division, and Air Force Academy Cadet Issue Division are all managed by HQ USAF

In response to the Office of Under Secretary of Defense (Comptroller) (OUSD(C)) direction to move from an aggregate surcharge to a customer-specific surcharge, the Air Force consolidated

three of its divisions into the single Materiel Support Division (MSD) on October 1, 1997. The original divisions were the Reparable Support Division (RSD), System Support Division (SSD), and the Cost of Operations Division (COD).

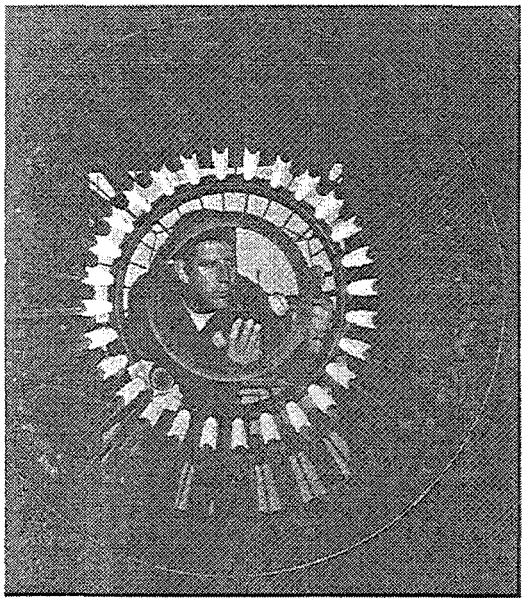
The MSD is responsible for the Air Force managed depot level reparable spare parts and Air Force managed consumable spares. The principal products of the MSD are serviceable spare parts/assemblies unique to Air Force weapon systems. Sale of reparable parts represents about 90 percent of total sales. The remainder represents sales of non-reparable or consumable items. Although most consumable items have been transferred to Defense Logistics Agency (DLA) for management, items designated as weapon system critical remain on the AFMC product list.

GSD items support installation maintenance and administrative functions, field and depot maintenance of aircraft, ground and airborne communication and electronic systems, and other sophisticated systems and equipment Also included are initial outfitting of individual clothing items issued to new recruits; organizational clothing items such as firemen's protective

overgarments; "clean room" coveralls, air crew helmets, and chemical warfare protective overgarments. This support is accomplished at 80 Air Force installations throughout the world.

The Fuels Divisions is made up of aviation, ground, and missile fuels categories. Aviation and ground fuels categories support U.S. Air Force, Air National Guard, Air Force Reserve, and other DoD and government agencies, commercial enterprises, foreign governments and commercial operations. Missile fuels category supports NASA, Air Force space launch programs and commercial space launch programs, in addition to the customers named above

The Surgeon General of the Air Force is responsible for the overall management of the Medical/Dental Division. The peacetime operating authority provides for the effective support necessary to maintain established norms in the health care of United States Air Force active military, retirees, and their dependents. The war reserve materiel (WRM) requirement of this division is for medical supplies and equipment vital to support forces in combat and contingency operations.



The Troop Support Division requisitions food based on customer requirements, and issues are made to those customers on a reimbursable basis Since October 1, 1995, this division has managed a declining portion of approximately 72 base level troop support operations which purchase subsistence from the Defense Supply Center Philadelphia (DSCP) and local vendors. The division was deactivated on September 30, 1999. Customers started procuring all items directly from vendors rather than through the revolving fund.

The Air Force Academy Cadet Issue Division finances the purchase of uniforms, uniform accessories and computers for sale to cadets. The customer base consists of over 4,000 cadets who receive distinctive uniforms procured from various domestic manufacturing contractors located coast to coast.

Depot Maintenance Activity Group (DMAG)

DMAG was established to provide economical and responsive repair, overhaul, and modification of aircraft, missiles, engines, other major-end items, and their associated components.

The DMAG provides a wide range of specialized services to the DoD as well as to other U.S. and foreign agencies Repair and overhaul is accomplished by both Air Force Materiel Command (AFMC) depots and contract operations Depot maintenance operates on the funds received from its customers through sales of its services.

Information Services Activity Group (ISAG)

ISAG was established to provide for the maintenance and development of automated information systems for specific Air Force, DoD, and other government agency 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

Mission Impact

The impact of AFMC-managed AFWCF support on Air Force mission capability may be gauged by the trends reflected in key operational and financial business performance indicators (BPIs). These indicators are also the key measure for assessment of performance under the Government Performance and Results Acts (GPRA).

The BPIs include:

MSD Retail Issue Effectiveness—the percentage of occasions on which Base Supply is able to issue a serviceable part when an order is placed, regardless of stock level authorizations

MSD Retail Stockage Effectiveness—the percentage of occasions on which Base Supply is able to issue a serviceable part that it is authorized to stock

DMAG Depot Maintenance Aircraft Delivery Performance—the percentage of aircraft delivered from depot maintenance on or before negotiated delivery dates

Key financial BPIs measure the effectiveness of AFWCF resource management Typical measures are:

Net Operating Results—a bottom-line profit and loss indicator.

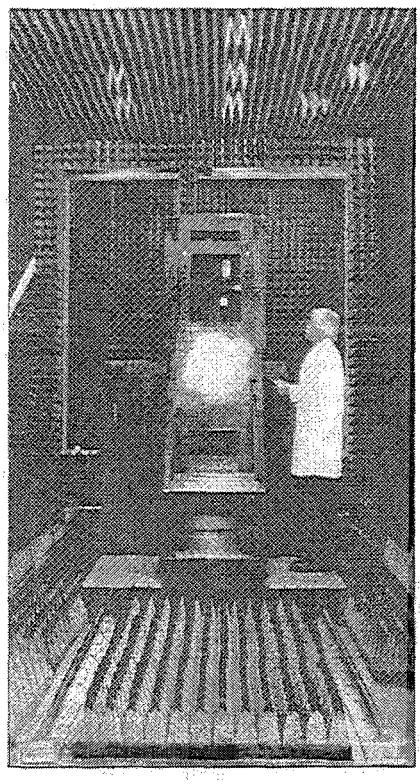
Unit Cost Target (UCT)—a target-performance indicator measuring resources consumed versus output. Actual unit cost is measured against target unit cost

Policy and Procedures

The operations of the activity groups are based on policies and procedures that continue in effect from the establishment of the Air Force Working Capital Fund.

Funding Authority

The activity groups receive their annual cost authority in a document from the OUSD(C) through the Assistant Secretary of the Air Force (Financial Management and Comptroller). Unit



cost targets have been established to provide standards for managing cost per unit of output. Capital investment targets are specified to support replacement and modernization of equipment and other capital assets.

Rates

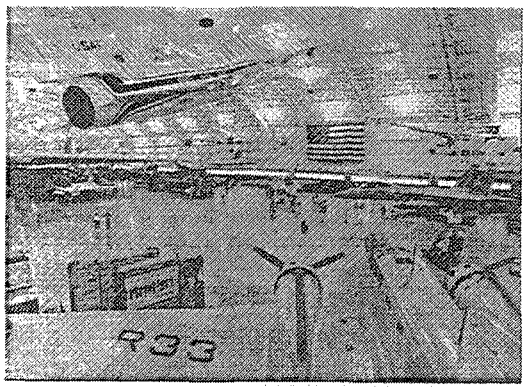
Rates are established to recoup full costs and are adjusted for prior year gains or losses. Rates are stabilized during the year of execution. The scope of costs paid by AFWCF activities and passed to customers in rates and prices has been refined to more accurately represent the full costs of goods and services

GENERAL AFWCF PROGRESS IN FY 1999

Improving Accuracy and Timeliness of Financial Management Data

Timeliness of Accounting Report (Monthly) 1307

The Air Force has worked with the Defense Finance and Accounting Services (DFAS) to improve the timeliness of financial management reports provided to AFMC. The AR 1307 report is used to assess monthly financial performance, and the timely receipt of this report helps to facilitate analysis of the results. The goal established by AFMC and DFAS is for DFAS to send the reports in time for AFMC to receive them by the tenth working day of each month. In previous years, AFMC generally received the reports around the fifteenth working day. Significant progress has been made in this area, and the goal has generally been met for FY 1999. AFMC will continue to track this process as a specific metric in FY 2000. AFMC, in conjunction with DFAS, will continue to provide the most current financial information to managers and customers.



Streamlining Financial Management

Integrated Process Teams (IPT) and Working Groups

In an effort to improve business practices, the AFWCF is involved in several IPT study/working groups covering broad issues such as budgeting, pricing requirements, and financial metrics. Three of these groups are listed below:

AFMC Pseudo Pricing IPT
The AFMC Pseudo Pricing IPT merged with the Seamless Supply IPT to focus on stock funding issues, such as point of sale, pricing policy and marginal pricing; financing inventory level changes; and streamlining overlaps and duplication. The Requirements Subgroup of the Seamless Supply IPT focuses on issues such as requirements execution tracking, database management tools, and integration of finance and requirements.

The AFWCF Brainstorming Summit, chaired by the Assistant Secretary of the Air Force (Budget Management and Execution), is focused on organizing and cataloging issues, coordinating and prioritizing efforts, cultivating new ideas, and simplifying AFWCF business practices.

Financial Processes Working Group (FPWG)
The FPWG initiated a series of changes in FY 1999, to strengthen its control of all financial processes from the requirements stage to program execution in the AFWCF activity groups. These changes included improvements to communications with operations and maintenance (O&M) and other sustainment financial areas, as well as similar budget process working groups designed to ensure seamless integration of all financial processes. The FPWG reviews, maps, and documents the processes established by the various subgroups, and reviews these processes to eliminate the risk of system conflicts or disconnects.

GENERAL AFWCF PROGRESS IN FY 1999

The following are among our accomplishments in FY 1999:

1 Published five additional chapters of the on-line version of the Financial Management Reference System (FMRS). The FMRS provides current and future analysts with information about AFWCF financial management processes

2 Established a process and timeline to publish online the remaining chapters of the FMRS

3. Addressed supply chain management pricing accountability

4 Addressed problems and disconnects in the AFWCF budget and pricing process schedule

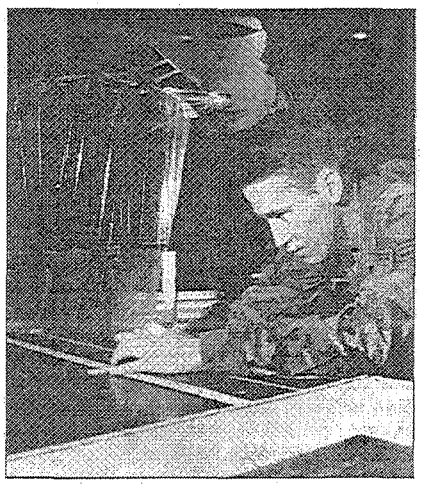
The FPWG also identified a number of other significant AFWCF disconnects and issues. The group created subgroups to develop solutions to these problems, set milestones and schedules to track progress, instituted a means of reporting progress, and documented the processes associated with the issues The most important achievement was in the continued development of the FMRS, however. This single depository of working capital fund and sustainment information has enabled the flow of accurate and timely information and at the same time helps to eliminate the disconnects associated with the use of multiple reference sources.

SYSTEMS

The financial management systems are critical aspects of the Air Force Working Capital Fund They are important because they help us manage our day-to-day operations Instituting new and updated systems that meet federal requirements and applicable accounting standards is a number one priority

Keystone Decisions Support System

Keystone began as a simple desktop database application providing SMAG sales (revenue) and expense data access to general ledger accounts and catalog prices, and a wide variety of reporting capabilities Keystone evolved into a decision



support system and gives web-based access to a data warehouse system that integrates logistic and financial legacy system data In 1999, Keystone V2.0 developed accounting reports in a "AR 1307-like" format by source of supply.

The initial goal of the Keystone Decision Support System (DSS) was to provide financial and logistics information that would assist in the management of the MSD. Keystone DSS is achieving its goal through meeting the following objectives:

▲ Provide visibility into wholesale- and retail-level general ledger transactions, inventory, back orders, expenses, revenue, National Item Identification Number (NIIN) level requirements, and trial balance

▲ Provide managers with a modern web-based management tool providing:

- Visibility into sales (revenue) and costs down to the product directorate and weapon systems level
- Timely and accurate information from a centralized data warehouse
- Ad-hoc analysis capability

GENERAL AFWCF PROGRESS IN FY 1999

- Improve cost visibility and control through comparisons of estimates and actual costs
- Facilitate budgeting and execution reporting

Keystone DSS users have access to all data in the system through their web browser. Keystone is currently used by approximately 200 personnel from AFMC financial management, AFMC logistics, the air logistics centers and weapon system program offices

Depot Maintenance Accounting and Production System (DMAPS)

DMAPS provides a tool to help AFMC implement and maintain a Chief Financial Officer (CFO) Act compliant financial management system DMAPS will provide actual cost visibility at the task level to support financial analysis and cost management. It will accurately tie the costs to the generating activity and move the command towards cost accounting standards (CAS) compliance. DMAPS will improve the timeliness, accuracy, completeness, reliability, consistency, and auditability of AFMC financial information The system integrates operational DFAS and Naval Air Systems Command (NAVAIR) systems into the AFMC legacy environment The suite of systems which comprise DMAPS are:

- Defense Integrated Financial Management System (DIFMS) from DFAS
- NAVAIR Industrial Material Management System (NIMMS) from NAVAIR
- Time and Attendance System (TAA) from NAVAIR
- Integration Engines for AFMC and DFAS-Denver (DFAS-DE) developed by Intergraph
- AFMC legacy systems
- DFAS-DE legacy systems

DMAPS is being developed and deployed in two phases Phase I is the production phase and will bring the TAA application to the depot floor. System integration test (SIT) began on January 3, 2000 at the initial deployment site, Ogden Air Logistics Center (ALC). Production cutover at Ogden will begin May 21, 2000. Production cutover, at Warner Robins is August 2000 and Oklahoma City, is December 2000. Phase II of DMAPS brings the financial and material components of DMAPS to the ALCs. Also during Phase II, DFAS-DE and the DFAS operating locations (OPLOCs) are involved. SIT for Phase II begins in March 2000 with production cutover scheduled for Ogden, Warner Robins, and Oklahoma City on October 2000, February 2001, and June 2001, respectively.

Defense Departmental Reporting Systems (DDRS)

The DDRS is set to replace the Departmental On-Line Accounting and Reporting System (DOLARS) DFAS-DE estimates implementation for DDRS in January 2001. The anticipated benefits of the DDRS include:

- Standardization of the departmental reporting process
- Consolidation of CFO statements into a single system
- Provision of a data query and report generation tool
- Operation within the Defense Common Operating Information Environment
- Infrastructure (DCII) (the hardware infrastructure for future systems)
- Elimination of legacy departmental and command level systems

GENERAL AFWCF PROGRESS IN FY 1999

One of the main areas where the DDRS will help the AFWCF is in the generation of a AR 1307 report for SMAG MSD by source of supply (SOS). The MSD is investigating the best way of obtaining financial management data by SOS Additionally, the MSD is investigating the feasibility of developing a separate fund code within the DDRS in order to track investment and operational costs by SOS. The ultimate goal of these efforts is to obtain more accurate financial management data to generate CFO-compliant financial statements and to provide financial managers with better management tools and more accurate data on which to base their decisions.

CASH MANAGEMENT

The AFWCF ended FY 1999 with $548.2 million in cash. We missed our FY 1999 cash target of $638.7 million by $90.5 million. The reasons for the shortfall were:

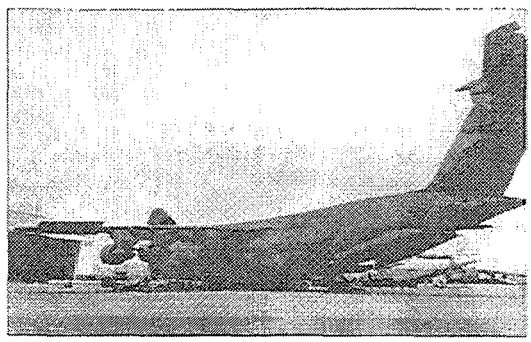
1. The DMAG cash balance increased $52M in FY 1999. The increase can be attributed to cash infusions at the end of FY 1999 for the centrally directed reimbursement, surcharge and increased sales
2. The Fuels cash balance decreased by $61M in FY 1999. $45.6M of collections missed the September 1999 cut off and were subsequently processed in October 1999
3. The GSD cash balance increased $39M in FY 1999. GSD experienced fewer deliveries year-end than projected; hence, disbursements were less than forecast
4. The MSD cash balance decreased $211.7M in FY 1999 Vendors successfully delivered $23M in additional spare parts for the FY 1999 unfunded requirement (bow wave) one year ahead of schedule ($28M authority received and $51M expended) Reimbursement for this $23M is budgeted in FY 2000 Accounts receivable increased $72M and accounts payable decreased $161M. Disbursements exceeded collections by $279M for the year. AFMC is working with DFAS to identify the causes of changes in these accounts and correct deficiencies in our processes

The amount of ending FY 1999 cash is not sufficient to meet the seven to ten days of cash goal recommended by Office of the Secretary of Defense (OSD) The recommended cash range for FY 1999 was $619.2M (seven days) to $893.2M (ten days).

	Total AFWCF
FY 1999 Cash Goal	$638.7M
Net YTD	-$90.5M
FY 1999 Actual	$548.2M

The Air Force is responsible for Transportation Command (TRANSCOM) Transportation Working Capital Fund (TWCF) cash management, but not overall TWCF business operations. TWCF is included in the "Other DoD Agencies CFO Report."

Cash management efforts continue to focus on analyzing data currently available and developing tools to identify changes in cash. Although the data currently available are outdated for current needs, accuracy has been improving. More work remains to be done on developing raw disbursement and collection data for insights into causes of changes in cash. AFMC is close to completing work on a statement of sources and uses of cash, which should be available in FY 2000. These better analytical tools are needed to refine management action and build cash to the level recommended by OUSD(C).



SUPPLY MANAGEMENT ACTIVITY GROUP (SMAG)

SMAG Mission Overview

The mission of the Air Force Supply Management Activity Group (SMAG) is to provide the policy guidance, and resources to meet the needs of the Air Force for spare parts, in war and peace There are six divisions in the SMAG: the Materiel Support Division (MSD), General Support Division (GSD), Fuels Division, Medical/Dental Division, Academy Cadet Issue Division and the Troop Support Division Within these divisions, the SMAG manages approximately two million items, including weapons system spare parts, fuels, and 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

Supply Management Highlights

The SMAG saw improvements in its customer support and financial metrics during FY 1999 The business area met or exceeded most of the FY 1999 goals set for the key BPIs shown in the table below Thanks in large part to supply chain management (SCM) initiatives, constraints analysis programs, contract repair enhancement program (CREP), depot repair enhancement program (DREP), and business information analysis team (BIAT) improvements to SCM visibility tools, the business area saw an upward turn in almost all its performance metrics when compared to FY 1998 results. Some of the FY 1999 SMAG "home runs" or highlights include:

Kosovo Support: The Logistics Response Time (LRT) for Kosovo requisitions was an impressive 11.9 days and Readiness Spares Package (RSP) fill rates were the highest since the early 1990's.

Prices Stabilized: The SMAG had one price change in FY 1999 compared to seven in FY 1998.

Supplemental bow wave and Kosovo funding: The SMAG developed, defended, and received additional direct budget authority of $381 8M for its back order "bow wave" and $124.1M for Kosovo support, fixing past leaks in the AFWCF

Back orders: SMAG MSD back orders were reduced 36 percent in FY 1999 to 373 000 units

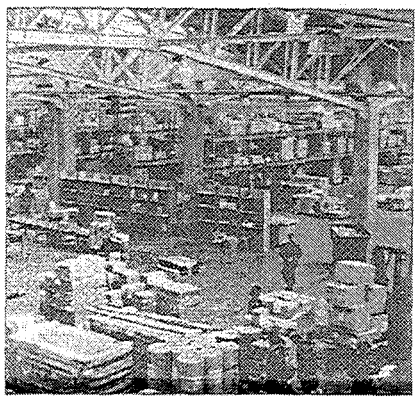
Financial Success: For the first time in years, the SMAG met cost targets and net operating results (NOR).

SCM Tools Development and Execution: In FY 1999, the SMAG developed web-based tools to assist SCMs and our customers in tracking performance. These tools include Keystone a financial database that tracks sales data Another tool, called Logistics Tracker, enabled SCMs to improve support to Kosovo by giving them enhanced visibility of all shipments. Other tools placed on web sites for easy use were the Logistics

MSD Business Performance Indicators (BPIs)

Customer Support BPI	FY 1999 Goal	FY 1999 Result	FY 2000 Goal
Issue Effectiveness	57 percent	57.24 percent	60 percent
Stockage Effectiveness	67 percent	67.62 percent	70 percent
Logistics Response Time (LRT)	41 Days	41.1 Days	38 Days
Back order Reduction	No Goal	373,718 units	300,000 units

SUPPLY MANAGEMENT ACTIVITY GROUP (SMAG)



Response Time system, Execution and Prioritization of Repair Support System (EXPRESS), and the Stock Control System (SCS).

Materiel Support Division Issue and Stockage Effectiveness

Issue Effectiveness indicates the ability of base supply to issue a serviceable part when any demand is placed. *Stockage Effectiveness* looks at how often base supply fills an **authorized** base stock level or demand.

By the end of FY 1999, the SMAG exceeded its issue and stockage effectiveness goals by 0.24 percent and 0.62 percent respectively. This is due mainly to contract repair enhancement program (CREP), and depot repair enhancement program (DREP) enhancements and increased SCM vigilance in assuring all components of the supply pipeline are running efficiently and providing the best possible support to the war fighter

During FY 1999 the SCM was given a new visibility tool called the Issue and Stockage Effectiveness Tool (ISET) Developed by Sacremento Air Logistics Center (SA-ALC) as a result of a BIAT study ISET enables the SCM to take issue and stockage effectiveness data and drill down to the national stock number (NSN) level. This allows the SCM to identify by NSN, those items that are below desired support targets. Once identified, the SCM can work with key personnel or organizations in the supply chain to remedy any problems

SCMs also made major strides in cleaning up invalid back orders and ensuring customers had valid authorized levels overlaying into the EXPRESS, ensuring the "right" items were being repaired and shipped out.

Materiel Support Division Logistics Response Time (LRT)

Logistics response time measures the time from customer's order to receipt of an AFMC managed item. With the emergence of an Expeditionary Aerospace Force (EAF) that is capable of deploying anywhere in the world at a moments notice, LRT has become a key business performance indicator (BPI) for AFMC and the customer.

Tracked monthly by AFMC Logistics, LRT data is available to all SCMs through a web site maintained by AFMC Plans and Programs – Studies and Analysis<http://www.afmc-mil.wpafb.af mil/organizations/HQ-AFMC/LG/LSO/lot/>. A key SCM responsibility is to monitor the four segments of the LRT process and ensure they fall into acceptable limits The four segments are:

1. **Requisitioning Processing:** Time from base's initiation of order to receipt of order by depot
2. **Inventory Control Point (ICP) Processing:** Time from receipt of order to shipment of part
3. **Defense Logistics Agency (DLA) Pick and Pack:** Time to prepare an item for shipment
4. **Transportation Time:** Time to ship an item from the depot to the customer

In FY 1999, the SMAG met its LRT goal of delivery to the customer in an average of 41 days. Again, it is the job of the SCM, who is accountable for the health of the supply pipeline for every item, to ensure timely delivery of parts to the customer. In order to do this, the SCM may be required to develop contracts or service level agreements with suppliers, depot managers, contract repair facilities, commercial shipping companies single managers, or DLA to find ways to shorten LRT.

Materiel Support Division Back Order Reduction

A *back order* is any demand placed on the Air Force supply system that cannot be immediately satisfied from existing inventory. Back order reductions have become a major HQ AFMC initiative to improve support to the war fighter. AFMC made considerable efforts during FY 1999 to achieve a 36 percent reduction overall throughout the year (from 589,000 units to 374,000 units). Indeed, the command achieved an even more impressive reduction (39 percent) from a peak of 615,000 units in December 1998 through to the end of the fiscal year

Various back order reduction initiatives implemented by the ALCs were the main reason for this success, and these should continue throughout FY 2000 However, the FY 2000 target of 300,000 units recognizes that the centers might already have resolved the "easier to fill back orders" during FY 1999, and that as time goes by, reducing back orders will become increasingly more

Financial BPIs for SMAG

Financial BPI FY 99 Goal	MSD FY 99 Goal	GSD FY 99 Goal	Fuels FY 99 Goal	Med/Dent FY 99 Goal	Troop Support FY 99 Goal	Academy FY 99 Goal
Net Operating Result (NOR)*	$-26.2M	$-13.8M	$3.2M	$0	$0	$-0.005
Revenue	$4447.9M	$2000.0M	$2407.5M	$555.2M	$50.2M	$5.000M
Expenses	$4484.3M	$2013.0M	$2404.3M	$555.2M	$50.2M	$5.005M
Unit Cost Target (UCT)	1.000	1.000	0.996	1.000	0.919	1.000
Financial BPI FY 99 Results	**MSD FY 99 Results**	**GSD FY 99 Results**	**Fuels FY 99 Results**	**Med/Dent FY 99 Results**	**Troop Support FY 99 Results**	**Academy FY 99 Results**
Net Operating Result (NOR)*	$-80.0M	$39.3M	$32.4M	$-17.3M	$-1.3M	$-0.025
Revenue	$4492.0M	$1,923.4M	$2783.7M	$589.6M	$31.2M	$7.160M
Expenses	$4412.0M	$1,884.0M	$2751.3M	$606.9M	$32.5M	$7.135M
Unit Cost Target (UCT)	1.120	0.996	0.989	0.989	0.384	1.000
Financial BPI FY 00 Goal	**MSD FY 00 Goal**	**GSD FY 00 Goal**	**Fuels FY 00 Goal**	**Med/Dent FY 00 Goal**	**Troop Support FY 00 Goal**	**Academy FY 00 Goal**
Net Operating Result (NOR)*	$-53.0M	$-0.6M	$-3.158M	$0	N/A	$-0.045
Revenue	$4245.0M	$1969.0M	$3813.5M	$602.2M	N/A	$7.000M
Expenses	$4302.0M	$1968.4M	$3816.6M	$602.4M	N/A	$6.955M
Unit Cost Target (UCT)	0.937	1.000	0.998	1.000	N/A	1.000

** The numbers provided are based on the budget and may differ from the AR1307 report. The variance between the AR1307 report and budget NOR is caused by differences in revenue recognition and expense calculations for cost of goods sold and other expenses.*

difficult. On the other hand, centers will receive increased parts during FY 2000 due to increases in funding aimed at adding to shelf stock. Moreover, reparable production will benefit from additional funding that has been provided to DLA for consumable items Also, the supply chain management constraints analysis program is focusing on process weaknesses that currently exist and will recommend solutions to these problems early in 2000. Data provided by this study will assist the SCMs to focus on the back orders that are most affecting readiness

Net Operating Result (NOR)

The *Net Operating Result* is the difference between revenue and expenses, or a bottom line profit and loss indicator. The objective of the SMAG is to break even over a two-year budget cycle. This is accomplished by setting customer prices which offset the net prior-year profit or loss.

The Materiel Support Division (MSD) NOR for FY 1999 was $80M, $30M above our projected NOR of $50M. The positive NOR means the business area revenues exceeded expenses in FY 1999. This occurred because sales increased, primarily as a result of contingency operations in Kosovo and Southwest Asia.

The General Support Division (GSD) FY 1999 NOR as reflected in the FY 2000 President's Budget and the end-of-year actual value differ by $53.2M. The GSD program projected a negative NOR in FY 1999 of $13.8M. That is, it was anticipated that expenses would exceed revenue by $13.8M At the end of FY 1999, revenue exceeded expenses The decrease in cost of goods, which was consistent with the reduced gross sales, and the negative expense posted for incoming shipment discrepancies were the major reasons for the positive budget NOR value of $39.3M.

For FY 1999 the Fuels Division had two main performance measurements: Net Operating Results (NOR) and Unit Cost Target. The Fuels Division computes its NOR by taking net sales minus operating expenses. For FY 1999 the NOR target was $3 2M, and the actual figure turned out to be

$32.4M. The higher NOR was driven by higher revenue than planned, because customers bought a different mix of fuels than budgeted as a result of the Kosovo contingency.

The difference between the budgeted and the actual NOR for the Medical/Dental Division was $17.3M, or 2.9 percent, which is within normal limits. Furthermore, $15.5M of that amount was due to an accounting adjustment that was not included in the rate setting process. That brought the NOR difference to $1 8M, a tiny 0.3 percent.

The difference between the budgeted and the actual NOR for the Troop Support Division was $1.3M, or 4.2 percent, also within normal limits.

Academy Cadet Issue Division NOR was met even though projected revenue and expenses were exceeded by $2M These increases reflect an execution year requirement to purchase computers for the inbound FY 2000 cadets. The original contract negotiations with another supplier fell through and the working capital fund was able to quickly react and purchase the computers in time for cadet processing.

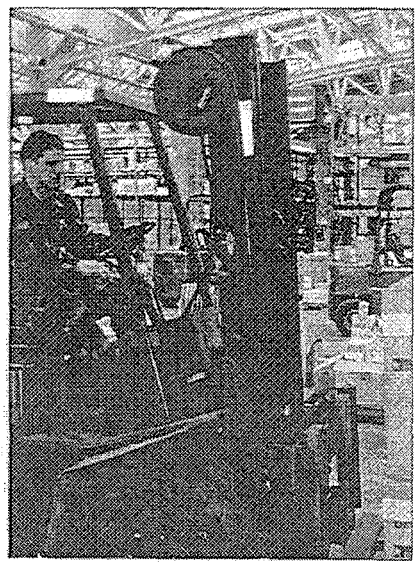
SUPPLY MANAGEMENT ACTIVITY GROUP (SMAG)

Unit Cost Target (UCT)

Unit Cost Target is derived by dividing costs by sales. It can also be described as the ratio of obligations to gross sales. Costs are defined as an obligation (excluding initial and capital expenses) and credit returns. Theoretically, the SMAG should aim for a unit cost target ratio of 1:1, meaning a "break even" point where sales equal costs

The FY 1999 MSD UCT was adjusted to 1.12 to include added funding for spares to increase stock levels (referred to as bow wave spares) and added spares associated with the Kosovo conflict Actual UCT was 1.124, which was only slightly above target by 0.004.

The actual unit cost for GSD was $0.996. The increased use of customer-direct support strategies — such as the International Merchant Purchase Authorization Card (IMPAC), the General Services Administration (GSA) Advantage Card, Electronic Mall (E-Mall), and performance based contracts — have had an impact on declining sales and the corresponding obligations for GSD.



Fuels Division computes unit cost by dividing obligations by gross sales. The unit cost target is a limitation, imposed by the Office of the Under Secretary of Defense (Comptroller) on the annual operating budget (AOB), restricting obligations to a percentage of gross sales. The AOB is the funding document providing the authority to incur costs. For FY 1999 the unit cost target was 0.996, with actual coming in at 0.989.

The UCT for the Troop Support Division was low at 0 384; however, that is explained by the deactivation of this division. In the latter part of the fiscal year the inventory that was being sold did not need to be replenished. That explains the drop in obligations.

The UCT for the Medical/Dental Division was 1.000. The goal was achieved, with the actual ratio slightly under the target at 0.989

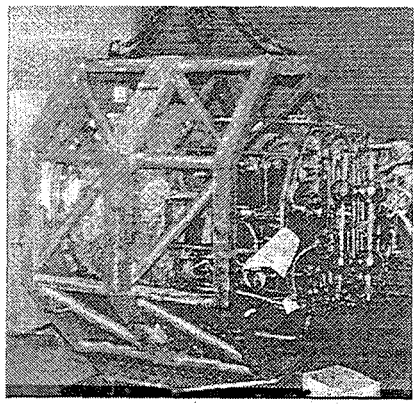
The general success of SMAG in meeting its performance goals is all the more impressive because this business area supported a major combat operation in 1999. During Kosovo, the equivalent of a major theater war, 93 percent of replacement parts got to forward expeditionary bases in Europe in an average of just 3.7 days Over 500 aircraft and 44,000 people from our active and reserve components were supported. Parts were available, information systems effective, and distribution and resupply were handled quickly and efficiently.

SMAG Goals and Initiatives

Inventory Valuation

A predominant driver in DFAS and Air Force reporting differences involves the valuation of MSD's extensive inventory. Existing automated systems overstate item value based on the most recent acquisition cost. This cost assessment of all inventory items, regardless of the actual purchase price, has incorrectly driven up expenses regarding cost of goods sold and other expenses, such as disposals. Recognizing this problem, the Air Force has proposed implementation of a weighted average inventory method. While this method

SUPPLY MANAGEMENT ACTIVITY GROUP (SMAG)



improves inventory valuation, it still has shortcomings associated with estimating item worth. For this reason the Air Force is considering development of a long-term concept to treat inventory as assets. AFMC was directed to establish a program office to develop and implement these inventory valuation methods, which will likely require extensive modifications to our automated inventory systems.

Financial Reporting in FY 2000

AFMC's goal is the use of official AR 1307 accounting data to both budget for, and evaluate the execution of, MSD performance. The Air Force continues to closely work with DFAS to ensure accounting statements are fully in compliance with generally accepted accounting principles, and we plan to achieve CFO compliance as expeditiously as possible. A prime example of our CFO compliance commitment involves the valuation of MSD inventory. Existing procedures value inventory based on the most recent acquisition cost. This inventory valuation method overestimates item worth, thus requiring monthly accounting adjustments impacting cost of goods sold. Recognizing this problem, AFMC has proposed, and the OSD Comptroller approved, the implementation of a weighted average inventory method. AFMC is also considering a proposal to develop a long-term concept to treat inventory as "assets."

Other SMAG FY 2000 goals and objectives can be found in the FY 2000 Supply Management Business Area (SMBA) Business Plan at <http://www.afmc-mil.wpafb.af.mil/HQ-AFMC/LG/lgi-page/smba/smba.htm>. These are summarized below:

- ▲ Increase issue effectiveness to 60 percent
- ▲ Increase stockage effectiveness to 70 percent
- ▲ Reduce logistics response time (LRT) to 38 days
- ▲ Reduce back orders to 300,000 units
- ▲ Fill all priority requisitions in 10 days or less
- ▲ Reduce average customer prices by 0.65 percent
- ▲ Meet or exceed a net operating result (NOR) of zero
- ▲ Reduce inactive inventory holding costs by 5 percent
- ▲ Determine the FY 2005 SMBA work force end state
- ▲ Size and configure the SMBA infrastructure for the FY 2005 mission

CFO Compliance

In an effort to become CFO compliant, the Air Force is currently designing new base-level and depot-level supply systems. The Air Force plans to implement a new and improved Standard Base Supply System (SBSS) at all Air Force bases When implemented, the system will provide the data needed for accounting systems to account for inventory at cost. In addition, DFAS initiatives will redesign the Standard Material Accounting System (SMAS) and the Financial Inventory Accounting and Billing System (FIABS) to implement Federal Financial Management Improvement Act system requirements. In addition, the Air Force has undertaken a major effort to reconsider how we account for larger depot level reparable spares

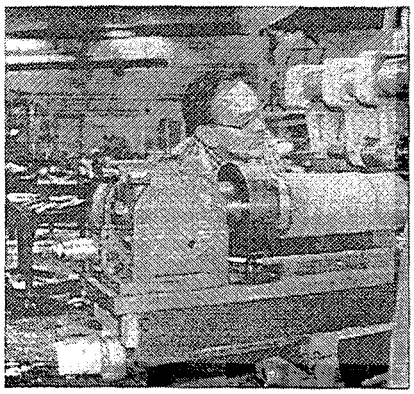
DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

MISSION STATEMENT

Depot Maintenance provides major overhaul and repair of systems and spare parts and strives to meet or exceed required standards for quality, timeliness and cost. In peacetime we enhance readiness by efficiently and economically repairing overhauling and modifying aircraft, engines, missiles, components, and software to meet customer demands. During wartime or contingencies, repair operations surge and capacity is realigned to support the warfighter's immediate needs. Repair and overhaul are accomplished by both AFMC depots and contract operations. Depot maintenance operates on the funds received through the sale of our services.

Customers, Products and Services

Depot Maintenance provides support to a variety of customers The single largest customer is the Supply Management Activity Group, which generates approximately 40 percent of the revenue. Components repaired for SMAG replenish spare parts to the Air Force supply chain. An additional 40 percent of Depot Maintenance revenue comes directly from work performed for the major commands, Air National Guard and Air Force Reserve The balance of work comes from other services, other government agencies and foreign countries.



Depot Maintenance provides scheduled overhaul for airframes and engines based on a planned timetable for each weapon system. Individual components routed from the field are also repaired. Missiles and ground electronic systems are repaired through scheduled and unscheduled depot maintenance. AFMC depots also provide an extensive software capability to maintain and modernize software used to operate weapon systems, as well as software designed for diagnostic purposes. Finally, storage, reclamation, and regeneration for all military services is provided at the Aerospace Maintenance and Regeneration Center (AMARC) at Davis-Monthan AFB, AZ, for equipment not currently needed by the active forces

Depot Workload Strategy

Over the past year, the Air Force has conducted a comprehensive review of our depot maintenance strategy to ensure that our remaining post Base Realignment and Closure (BRAC) depot capability is properly sized to provide robust support to the full range of potential warfighting requirements and is efficiently utilized in peacetime. The review reaffirmed that maintenance is a core competency of the Air Force and is a critical element of overall warfighting capability. Our depot strategy is designed to ensure that we possess an organic "core" capability sized to support our two major theater war planning scenario and that our organic facilities are efficiently utilized in peacetime. Elements of the strategy are:

1. Allowing the depots to compete for workload above "core" requirements on a best value basis with private industry (This is known as the depot maintenance "core plus" strategy)

DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

2. Continuing to rely on our private sector partners to execute workloads for which they are best suited
3. Considering workloads not required to sustain core capability for public-private competitions. Decisions to compete this workload can only be made after the Air Force ensures compliance with 10 United States Code 2466 ("50/50")
4. Interfacing our depot source-of-repair assignment process and acquisition strategy panels to ensure that long-range weapon system sustaining planning, core logistics capability, and "50/50" considerations are considered. This merger will ensure smart corporate decisions are made for our weapon systems in consonance with our need to ensure that we retain the necessary public and private maintenance capabilities

A number of efforts are underway to improve the efficiency and effectiveness of the depots:

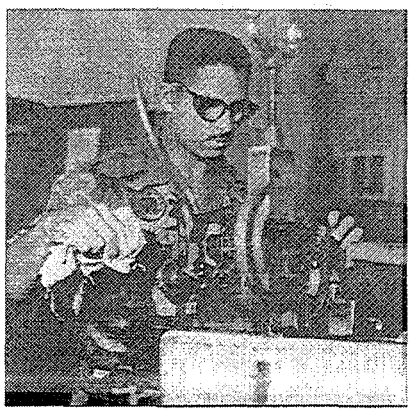
Workload Consolidation

In 1997, core workloads from the Air Force's two closing depots [San Antonio Air Logistics Center (ALC) and Sacramento ALC] began transitioning to the Ogden, Oklahoma City and Warner-Robins ALCs In addition, selected workloads are being transferred to the depots of other services The net result is to streamline the Air Force's depot maintenance infrastructure from five to three depots. With these consolidations, a significantly reduced total of general and administrative (G&A) costs are to be distributed over workloads at the remaining ALCs. Consolidation is expected to save over $170M across the future years defense program (FYDP)

Competition

Once minimum core capability is established in the organic depots, the remaining non-core workloads (those that are not required to meet wartime needs) will be accomplished in a manner that attains the best value to the customer. This is accomplished through the use of public/private competition of non-core depot workloads. This does not include jobs that must remain organic to ensure the ability to support mobilization or to comply with the 50/50 outsourcing restriction of Title 10, United States Code Two major competitions were awarded in FY 1999. On October 9, 1998, Ogden ALC and teaming partner Boeing were awarded the Sacramento ALC competed workload. Boeing is responsible for the KC-135 workload performed at Kelly AFB, TX. Ogden is responsible for the A-10 and commodities portion of the workload The commodities workload consists of hydraulics, electrical accessories, instruments/ electronics and back shop/local manufacturing. Ogden completed the transfer of the workload out of Sacramento in October 1999 Boeing has inducted all 14 of the KC-135s planned for FY 1999. On February 12, 1999, Oklahoma City ALC and teaming partner Lockheed Martin were awarded the propulsion business area (PBA) competed workload. Lockheed Martin is responsible for the TF39 and T56 engine repairs that they will perform in-place at Kelly AFB, TX Oklahoma City is responsible for the F100 engine and fuel accessories repair workloads. Oklahoma City plans to have full operational capability (FOC) on the F100 by September 2000 and FOC on the fuel accessories by January 2001. Lockheed Martin took over full responsibility for the TF39 and T56 on December 14, 1999. We expect to realize a savings in excess of $170M in FY 2000 from competition Savings to the DMAG through competition are $1 7B over the FYDP.

DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)



Partnering/Corporate Contracts

Depot Maintenance continues to provide a core Air Force capability in order to retain an in-house source of technical competence. For non-core workloads, new methods are being sought for the efficient use of resources. These methods include partnering with private firms, government owned/contractor operated facilities and contractor field teams augmenting in-house operations Competitions and outsourcing for workloads not needed to support core capabilities will be pursued to the maximum extent permitted by law. The result of these efforts is the continued lowering of overhead costs, decreased flow days for systems and components, increased parts availability to the repair line, decreased material costs through process reviews, and improved efficiency through the adoption of commercial practices, engineered standards and action workouts Partnering is expected to reduce our depot labor rates by $4 00-$6.50 per hour.

Sources of Maintenance

The depot maintenance environment continues to change in response to a decreasing military force structure and advancing technology. Weapon systems embodying new materials and technologies require new maintenance processes. Improvements in reliability which reduce the frequency of maintenance add to the variability of maintenance requirements. 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 (facilities operated by AFMC) and contractor repair sources.

Organization of Depots

The DMAG organic services are provided by three principal ALCs, other service depots, and one specialized center.

Air Force organic depot maintenance sites include:

- Ogden Air Logistics Center (OO-ALC), Hill AFB, Ogden, Utah
- Oklahoma City Air Logistics Center (OC-ALC), Tinker AFB, Oklahoma City, Oklahoma
- Warner-Robins Air Logistics Center (WR-ALC), Robins AFB, Robins, Georgia
- Aerospace Maintenance and Regeneration Center (AMARC), Davis-Monthan, Tucson, Arizona

Depot Maintenance Manager

The Air Force goal is to achieve accountability at the lowest level in depot maintenance [the depot maintenance manager (DMM)] The DMM is typically the product directorate chief, normally a Colonel or GM-15, who is responsible for the day-to-day management of repair, maintenance, and modification of weapon systems and material assigned to a directorate. This includes management of organic production accomplished within the directorate's resource control centers (RCCs) and contract production managed by the directorate. The DMM may be responsible for production pertaining to multiple weapon systems (e.g., B-1, F-16, C-130) and commodities (e.g., software, avionics, engines, and engine accessories) The DMM is responsible for the management of all elements of production and assuring compliance with applicable regulatory direction

DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

DMMs must ensure that their portion of the business area achieves its revenue and expense goals while executing customer requirements. Each DMM is responsible for assuring that schedule and quality goals are met and for identifying, tracking and controlling costs.

DMMs recognize major command (MAJCOM) customer accounts as having a specific level of funding based on the President's Budget (PB) Cost authority given to AFMC and allocated to the ALCs must correspond with this customer funding level DMMs, in coordination with AFMC, work with their customers to establish funding requirements, reprogramming actions, and investment decisions/ requirements deferrals, or the reprioritization of requirements that support the warfighter's needs If such changes occur and are approved the DMM must validate, justify and defend the new growth requirement. DMMs are also responsible for closely monitoring programmed versus unprogrammed funding execution. AFMC, in conjunction with the customer MAJCOMs, will defend these requirements to Headquarters Air Force for additional or reprioritized funds. The justification must occur as early in the fiscal year as possible, and does not negate the necessity for the DMMs to accurately forecast budget requirements in the out years as accurately as possible.

Back To Basics

The "back-to-basics" (BTB) effort began when a maintenance review team, requested by the Commander of the Air Force Materiel Command, found numerous deficiencies in basic AFMC depot maintenance practices These deficiencies were categorized into four groups: technical data; tools and equipment; training and qualification; and process discipline The "BTB" team, established in July 1999 rewrote policy requirements in these four areas. The team, composed of headquarters and center subject matter experts, published the first document on October 15, 1999. AFMCPD, "Depot Maintenance Policy," provides board maintenance policy applying to all depot production Two AFMC Instructions followed on October 19, 1999: 21-110 "Depot Maintenance Technical Data and Work Control Documents" and 21-115, "Depot Maintenance Quality Assurance." These instructions clarify and expand guidance about technical data and work documents, and establish a new depot maintenance quality assurance (QA) system. Nearing completion is AFMC Instruction 21-108, "Maintenance Training and Production Acceptance Certification (PAC) Program," which establishes a comprehensive maintenance training program and improves the existing PAC Another document, published in January 2000, is AFMC Instruction 21-132 "Depot Maintenance Technical Compliance Review Procedures." It establishes metrics in each of the four compliance areas and provides feedback on the maintenance production processes Currently the ALCs are implementing these new policies, including the staffing of new QA organizations Well-trained and qualified depot workers, accurate and timely technical data, and the proper tools and equipment will result in the production of conforming depot maintenance products and services. A comprehensive QA program and technical compliance review will support these endeavors. In addition, the maintenance standardization evaluation program (MSEP) will begin on-site evaluations of maintenance practices in January 2000, with an implementation period 180 days from the specific requirement's publication date

Financial Performance Measures FY 1999 Goal	DMAG FY 1999 Goal	DMAG FY 1999 Result	DMAG FY 2000 Goal
Net Operating Result (NOR)	$127.6M	$188.4M	($175.4M)
Revenue	$5126.6M	$5215.2M	$5079.6M
Cost of Goods Sold & Other*	$4999.0M	$5036.8M*	$5255.0M

* Does not include Reservation of Cash (-13.778M), Prior Year Gains/Losses (+27.529) or AOR Change (-3.880M)

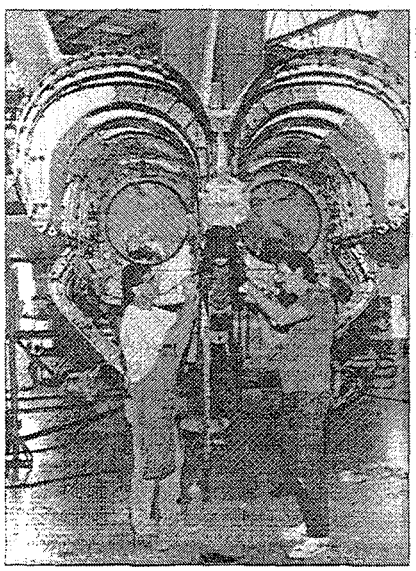
DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

DMAG Performance Measures

Performance effectiveness of the DMAG is reflected in six metrics. Three are financial effectiveness measures and three are performance effectiveness measures.

Financial Effectiveness Measures

The DMAG financial effectiveness measures are: net operating result (NOR), which is computed as revenue minus the cost of operations: revenue, which is the income received from customers versus the planned earnings identified in the President's Budget, and cost of goods sold, which measures the cost incurred to produce a given quantity and mix of products and services.



Net Operating Result

The NOR is the difference between revenue and cost of operations It includes other non-operating adjustments such as prior period corrections In business terms, this is the profit or loss from annual operations The variance of actual from target NOR is one of the most important indicators of the effectiveness of business operations. Revenue and costs are based on completed work. Targets for financial effectiveness are set according to the FY 1999 President's Budget (PB).

The Depot Maintenance Activity Group NOR of $188.4M was $60.8M better than the plan of $127.6M This actual NOR was overstated by $29.2M, due to an SM-ALC material transfer to OO-ALC, which was not recorded in OO-ALC's accounting records. In addition, the NOR does not include amounts for losses on equipment written off due to downsizing that are excluded from recovery in future rates The President's Budget (PB) NOR ($108.6M) does not include the $19M SMAG credit directed by Program Budget Decision (PBD) 426. It is shown in the PB as a change to AOR: The $127 6M includes the $19M to maintain visibility of the adjustment. The $19M was recorded in the June 1999 budget execution at SA-ALC.

Revenue

Revenue is the income received from customers and is tracked versus the planned earnings identified in the President's Budget. Our total revenue was $88.7M higher than anticipated, due to increased exchangeable production ($5,215M verses $5,127M) The largest revenue variances were in aircraft (91 percent of planned figures)

	Planned	Actual	Shortfall
Centrally Directed Reimbursement	134.0M	94.3M	39.7M
Quarterly Surcharge	130.8M	127.4M	3.4M
Total Reimbursement Shortfall	—	—	43.1M

and exchangeables (114 percent) The other categories combined stood at 82 percent of their total planned revenues This is primarily due to receiving $43M less than planned reimbursements as indicated by the previous chart:

Cost of Goods Produced

For the DMAG, this measures the costs incurred during the production of a given quantity and mix of products and services. The total cost of goods produced (total expenses) was $255.5M more than planned for FY 1999. Labor/contractor charges exceeded the plan by $112M ($1.3M organic labor and $110 7M contractor charges). Material costs exceeded the plan by $154M. The principal factor for the material variance was that a projected 27 percent decrease in DMAG depot level reparables cost purchased from the Materiel Support Division did not occur Contractor charges were higher than planned at San Antonio ALC.

Performance Effectiveness Measures

The DMAG performance effectiveness measures are due date performance which portrays schedule effectiveness; organic production hours, which depicts how well the DMAG supported its total planned production output; and quality defect rate, which measures the quality of the completed aircraft work as measured by the operating unit which possesses the aircraft

Performance Effectiveness Measures	FY 1999 Goal	FY 1999 Result	FY 2000 Goal
Due Date Performance	90 percent	79 percent	90 percent
Organic Production Hours	24,927K	24,861K	23,241K
Quality Defect Rate*	0.1 Defects	0.18 Defects	0.1 Defects

*Defects per aircraft delivered

Organic Production Hours

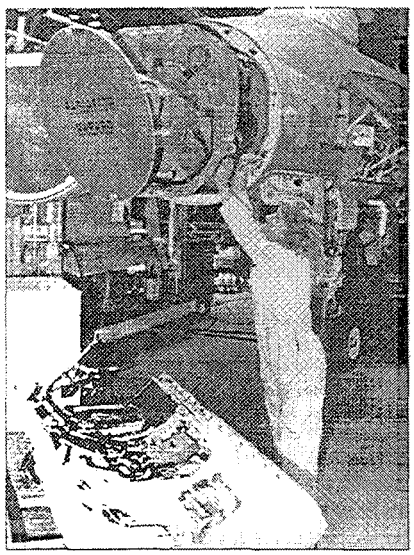
Production hours (planned and actual) expressed in numbers of direct production standard hours (DPSH) and direct production actual hours (DPAH) represent the number of labor hours planned and used in the production effort as negotiated by the system/item management and depot maintenance management groups DPSHs are allocated by month to cover the anticipated productivity requirements. Management compares monthly actual DPSHs to monthly planned DPSHs to determine efficiencies Production hours consumed are reviewed in monthly increments and are cumulative.

DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

Results for FY 1999: Planned organic production hours were estimated at 24 927M. Actual organic production hours totaled 24 861M. Total production hours tracked relatively close to the plan during the course of the fiscal year.

Due Date Performance (Aircraft)

Due date performance measures differences between the negotiated due dates and the actual completion dates of work done on aircraft undergoing the depot maintenance process. Annual results are expressed in percentages of work completed early, on time, and late each month Aircraft delivery performance averaged 79 percent for the year (29 percent early plus 50 percent on time) compared with a goal of 90 percent. In summary, over and above maintenance, parts, maintenance delays in post dock, functional check flight problems both on the ground and in the air, fuel problems, and manpower shortages/skills imbalances were the areas identified throughout the year that caused the most delays Specifically WR-ALCs major production delays are associated with C-5 landing gear government-furnished equipment and material (GFE/M) support, delays in awaiting engineering approval for flight controls repair, C-130 non-generation of planned workload, and early retirement of C-141 aircraft At OO-ALC, production delays are attributed to F-16 service life extension program (SLEP) modification kit parts shortages and associated back shops workload backlog and the Combat update plan integration details (CUPID) modification manpower and skills imbalance issues



In the aggregate, however, FY 1999 delivery performance has reflected in a slight downward trend. In light of workload moves from closing depots, support of Kosovo and fleet reconstitution after the fact, overall aircraft delivery performance by the centers was accepted. Continued emphasis by managers and supervisors from the shop floor to the front office contributed to a successful year.

Quality Defect Rate (Aircraft)

The quality defect rate is a record of the number of defects discovered by the owning units in aircraft returned from programmed depot maintenance (PDM). It is expressed as an average of defects per aircraft During FY 1999, the organic and contract workforce achieved a rate of 0.18 defects per aircraft compared with a goal of 0 1 defects.

DMAG Goals and Initiatives

The mission objective of the DMAG operation for FY 2000 is to meet or exceed the support requirements and expectations of our combat-ready customers This means that we must produce and deliver components and end items required by our customers when needed in a timely manner and at reasonable cost. We are undertaking several major initiatives to improve the cost and time-effectiveness of our business and production practices.

Expeditionary Aerospace Force Objectives

- Reduce total flow days for aircraft undergoing depot maintenance by 20 percent by the end of FY 2000 and an additional 20 percent by the end of FY 2005 for both contract and organic repair. Reductions are from a 1996 baseline

DEPOT MAINTENANCE ACTIVITY GROUP (DMAG)

- ▲ Formulate engineer labor standards to accurately describe changing work requirements
- ▲ Meet end item delivery commitments 90 percent of the time by the end of FY 2000 and 95 percent of the time by the end of FY 2005

Weapons Systems Support

- ▲ Establish technically compliant operations across all product lines by FY 2003
- ▲ Establish in-process measures to ensure the production of technically compliant products. These metrics are categorized into four areas:
  - **Technical Data** – indicate if the technical data in use current and accurate
  - **Tools and Equipment** – indicate if the tools and equipment in use are the correct ones and in serviceable condition
  - **Training and Qualification** – indicate if the maintenance workforce has the technical expertise and is capable of proficient task accomplishment
  - **Task Execution** – indicate if the maintenance workforce is safely and efficiently executing tasks in accordance with technical data and other directives

Cost

- ▲ Using FY 1998 as the baseline, reduce average customer price after inflation by eight percent, by FY 2007
- ▲ Achieve material cost savings by:
  - Updating depot maintenance materiel policy
  - Improving bill of material (BOM) accuracy by conducting an audit and implementing recommendations
  - Investigating and implementing prudent prime vendor initiatives
  - Investigating and implementing prudent direct vendor delivery programs
  - Exploring and implementing prudent use of the "IMPAC" local purchases cards
  - Establishing a command material supportability process in partnership with DLA using the reparability forecast model (RFM)
  - Training the workforce in proper BOM management
  - Identifying and developing action plans to reduce the causes of back orders and awaiting parts (AWP) that cause constant workaround processes
- ▲ Strengthen contract depot maintenance management by:
  - Updating pertinent regulations, manuals, and instructions
  - Providing standardized training
  - Determining specific areas of contract depot maintenance for review
  - Developing standardized review and tracking of contracts at the Program Management Specialist (PMS) level
- ▲ Consolidate core capabilities/technologies from closing depots to remaining depots by end FY 2001
- ▲ Compete non-core workload

- Develop partnerships with industry to place unused but essential capacity into service
- Manage costs each year to ensure net operating result goals are met without suffering a financial loss

Work Force

- Identify FY 2005 workforce requirements and by end FY 1999 develop plan to achieve that ideal workforce
- Determine DMAG workforce end states based on FY 2005 DMAG end states to include a strategic, top-level assessment goal of workforce skills, skill levels, and demographics needed in FY 2005
- Apply workforce shaping decisions to individual positions

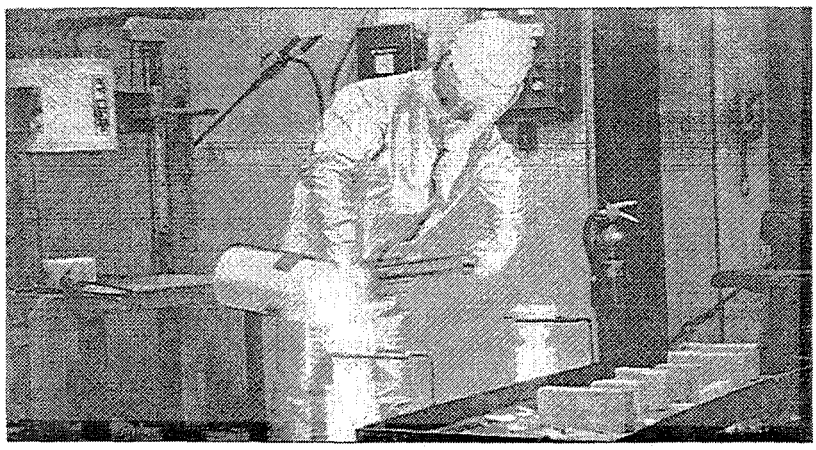
Infrastructure

- Plan to continually look at the surge in depot maintenance workload requirements as a result of wartime operations in order to see where shortages and excesses occur in areas of capability classified as either core or plus. The results will be used to develop and maintain overall strategies and plans to increase capacities where needed and to divest excess capacities
- Plan an investments strategy that supports infrastructure This will cover current and future requirements
  - Capital purchase program (CPP) (minor construction, equipment replacement, software development)
  - New applications of technology
  - Military construction (MILCON)
  - New systems

The goal is to achieve a mission (wartime) capacity utilization rate of 85 percent at each center.

CFO Compliance

As its core financial accounting system for organic depot maintenance, DMAPS is the main system that will help the DMAG become CFO compliant. DMAPS will provide a complete transaction driven accounting system, including required subsidiary ledgers and registers and a fully automated general ledger Achieving this milestone will remove a major roadblock to CFO compliance.



INFORMATION SERVICES ACTIVITY GROUP (ISAG)

MISSION STATEMENT

Develop, acquire, sustain, integrate, modernize and secure combat support information systems for the United States Air Force (USAF) and Department of Defense (DoD) customers

The Information Services Activity Group (ISAG) provides technological support for all levels of information systems, from development of leading-edge technologies to the maintenance and modification of older legacy systems. It offers comprehensive support to its customers, including the development maintenance, integration, and sustainment of their combat support information systems

The ISAG enhances readiness during peace and war by sustaining global combat support information systems providing information to combat forces where and when they need it thus improving the response capability of these forces

There are two AF activities acting as one central design activity (CDA) under the command of HQ AFMC, Wright-Patterson AFB, Ohio through Electronic Systems Command (ESC) at Hanscom AFB, Massachusetts The two activities are the Materiel Systems Group (MSG) located at Wright-Patterson AFB, Ohio and the Standard Systems Group (SSG) located at Maxwell AFB–Gunter Annex Alabama.

The ISAG provides, through the CDA, information products and services through two business lines:

The **product support business line** provides the development and operational sustainment of automated information and communications systems on existing hardware and software platforms for AFMC level logistics support systems and Air Force base level standard support systems. This includes a 24-hour by 7-day field user help desk for field users to call for hardware and software systems support Additionally, this business line

provides automated information and communications systems requirement analysis, system design, development, testing, integration, implementation support, and documentation services on mainframe, mid-tier and personal computer hardware/software platforms for Air Force and DoD customers using the Software Engineering Institute Capability Maturity Model processes.

The **Commercial Information Technology Product Area Directorate (CITPAD)** business line provides other authorized information system services or products through the acquisition and operation of the CITPAD commodity contracts for the Department of the Air Force and other agencies of the DoD

The ISAG may furnish these products or services to agencies of other departments or instrumentalities of the U.S Government and to private parties and other agencies, as authorized by law. The services are authorized to be provided by organic or contract sources

The product support business line provides CDA services based on service level agreements (SLAs) with known customers and on the sale of direct

INFORMATION SERVICES ACTIVITY GROUP (ISAG)

billable hours However, the CITPAD business line provides goods and services (e.g., personal computers, local area network hardware and services, including installations worldwide) to many thousands of individual customers across the Air Force and DoD, making SLAs and the use of direct billable hours impractical.

Instead, the CITPAD portion of the ISAG contributes to the overall revenue of the organization through the collection of a surcharge on orders for equipment and services required by the users of the contracts or blanket purchase agreements.

As previously mentioned, the ISAG operates in two major locations, each of which has slightly different market sectors:

The MSG, headquartered at Wright-Patterson AFB, Ohio with two operating locations at OC-ALC and OO-ALC, has historically concentrated on depot management information systems.

The SSG, headquartered at Maxwell AFB-Gunter Annex, Alabama, has focused on flight-line management information systems

ISAG Performance Measures

The effectiveness of the ISAG is demonstrated in seven key measures The first three measures illustrate financial effectiveness. The fourth measure clearly shows cost savings realized by customers, while the remaining three measures indicate delivery of high-quality products to customers when and where they are needed.

The primary indicator of ISAG financial effectiveness is net operating result (NOR), which is computed as revenue minus the cost of operations

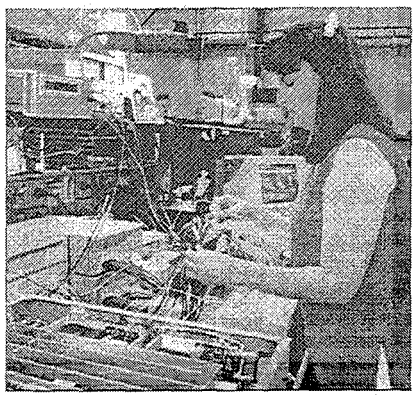
Net Operating Result

A negative target was set for the FY 1999 net operating result (NOR) to achieve a zero accumulated operating result (AOR) by FY 2000 The ISAG recorded a NOR loss of $1M in FY 1999

Rigorous efforts by management to hold down non-pay expenses in anticipation of customer reductions in direct labor hour purchases resulted in the NOR being slightly better than projected.

Revenue

Revenue is earned by three methods: the sale of direct billable labor hours at the ISAG composite rate, direct reimbursements for pass-through contract efforts and extraordinary expenses (e.g., mission unique travel, equipment and supplies), and the collection of CITPAD surcharge revenue



Financial Performance Measures

Financial Performance Measures FY 1999 Goal	ISAG FY 1999 Goal	ISAG FY 1999 Result	ISAG FY 1999 Variance
Net Operating Result (NOR)	$-1.4M	$-1.0M	$0.4M
Revenue	$500.843M	$451.970M	$-48.873M
Cost of Operations	$504.696M	$452.967M	$-51.729M

INFORMATION SERVICES ACTIVITY GROUP (ISAG)

The variance in revenue of $48 9M is driven largely by reduced cost reimbursable workload for the Enterprise Internet and Joint Ammunition Management System. This reduction is matched by reduced expenses below and did not affect NOR in FY 1999.

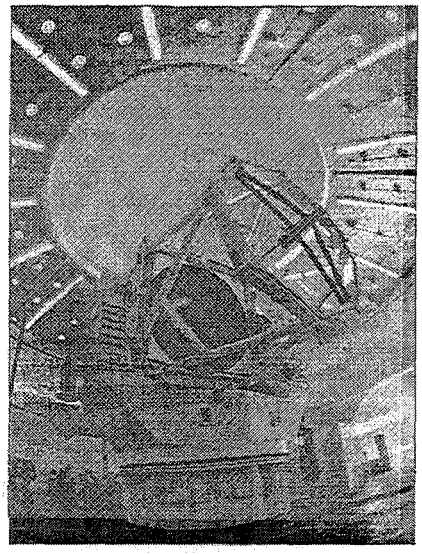
Cost of Operations

For the ISAG, cost of operations measure the resources consumed in the filling of customer orders These costs include labor and non-labor expenses, both direct and overhead.

As stated above, this variance is driven largely by reduced cost reimbursable workload for the Enterprise Internet and Joint Ammunition Management System Additionally non-labor rate-based expenses were held back in anticipation of reduced direct labor purchases.

Non-Financial Performance Measures

Commercial Information Technology Product Area Directorate (CITPAD) Performance Measures: The metrics capture the cost and schedule performance of the CITPAD buying commercial information technology products relative to GSA and commercial list prices and deliveries



The FY 1999 CITPAD savings to the customer was approximately 18 percent below GSA prices.

Deficiency Reports (DIREPs) and Software Releases: Software DIREPs are one measure of the quality of software being produced. Software releases are software components issued to fix DIREPs and for minor enhancements as part of sustainment Priority 1 DIREPs (emergency calls) and priority 2 DIREPs (routine calls) are quantitative measurements that are reported monthly The number of priority 1 and priority 2 DIREPs per 100,000 lines of code are identified, reported monthly, and corrected, and the corrective action is provided as feedback to ISAG developers and customers

The FY 1999 performance is as follows:

Software Releases – 91 percent On-Time

Priority 1 Deficiency Reports—75 percent closed within 48 hours

Priority 2 Deficiency Reports—60 percent closed within 45 days

INFORMATION SERVICES ACTIVITY GROUP (ISAG)

These performances were all within the acceptable limitations endorsed by the Air Force Materiel Command (AFMC).

EVM: Earned Value Management is a tool that allows customer and software factory/contractor program managers to have visibility into technical, cost, and schedule progress on their projects. An earned value management system ensures that program managers are provided with cost and schedule performance data which:

1. relate time-phased budgets to specific contract tasks and/or statements of work;
2. indicate work progress;
3. properly relate cost, schedule and technical accomplishment;
4. are valid, timely, and auditable;
5. supply managers with information at a practical level of summarization; and
6. are derived from the same internal earned value management systems used by the contractor to manage the contract.

Initial implementation of EVM on ISAG software programs began in May 1998

ISAG Initiatives:

The CDA will provide mission support services to the Air Force and other customers in a multitude of functional areas, including Supply, maintenance, financial management, medical, transportation, munitions, logistics, plans, contracting and military justice. To do so most efficiently and effectively, the following strategic initiatives have been developed to reduce costs and keep our work force trained to remain competitive through FY 2007. AFMC objectives for Expeditionary Aerospace Force (EAF), weapons systems, cost workforce, and infrastructure are supported by the seven ISAG initiatives that have been developed

Objective 1: Meet or exceed commitments

Objective 2: Improve customer satisfaction

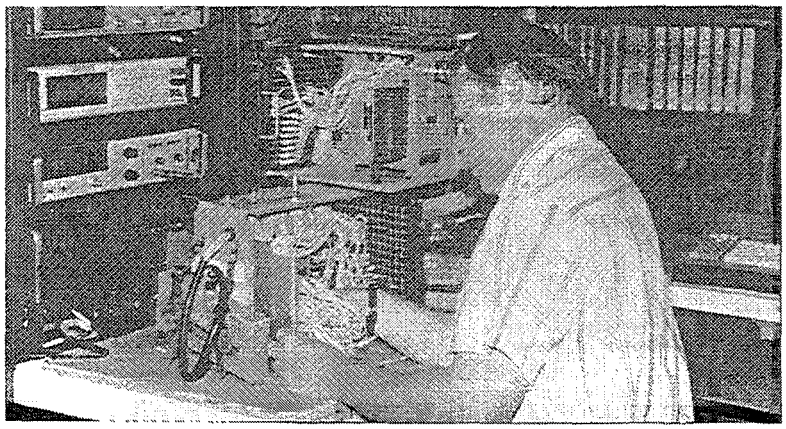
Objective 3: Protect information systems

Objective 4: Meet net operating result (NOR) and accumulated operating result (AOR) targets

Objective 5: Optimize our workforce

Objective 6: Improve communications

Objective 7: Properly size our capital infrastructure



INFORMATION SERVICES ACTIVITY GROUP (ISAG)

AFWCF CFO Compliance

The Air Force, DoD, and DFAS continue taking actions to improve Air Force financial data accuracy and reporting. The Air Force is committed to moving towards providing effective financial management practices to the federal government. We are on the right path to improving our systems of accounting. As such we have taken on several initiatives such as the Depot Maintenance Accounting and Production System (DMAPS) and update the Standard Base Supply System (SBSS), discussed earlier in the report that will help us become CFO Act compliant. However, while awaiting completion of the systems development efforts, the Air Force has also begun to address 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 In conjunction with our DFAS partners, we are committed to achieving the DoD goal of becoming CFO Act compliant by 2003.

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DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

CONSOLIDATED

PRINCIPAL STATEMENTS

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 1999

FY 1999

($ in Thousands)

ASSETS

1. Entity Assets

A. Intragovernmental

1. Fund Balance with Treasury (Note 2) $ 270,183

2. Investments, Net (Note 3) 0

3. Accounts Receivable (Note 4) 1,069,146

4 Other Assets (Note 5) 679,727

5 Total Intragovernmental $ 2,019,056

B. Accounts Receivable, Net (Note 4) 199,198

C Loans Receivable and Related Foreclosed Property, Net (Note 6) 0

D. Cash and Other Monetary Assets (Note 7) 4

E Inventory and Related Property, Net (Note 8) 19,280,246

F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information) 1,405,311

G. Other Assets (Note 5) 197,142

H. Total Entity Assets $ 23,100,957

2. Nonentity Assets

A Intragovernmental

1 Fund Balance with Treasury (Note 2) $ 0

2 Accounts Receivable (Note 4) 0

3 Other Assets (Note 5) 0

4 Total Intragovernmental $ 0

B. Accounts Receivable, Net (Note 4) 0

C Cash and Other Monetary Assets (Note 7) 0

D Other Assets (Note 5) 0

E Total Nonentity Assets $ 0

3. Total Assets $

23,100,957

The accompanying footnotes are an integral part of these statements.

2-1

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 1999

FY 1999

($ in Thousands)

LIABILITIES

4. Liabilities covered by Budgetary Resources

A Intragovernmental

1. Accounts Payable $ 314,324

2 Debt (Note 11) 0

3 Environmental Liabilities (Note 12) 0

4 Other Liabilities (Note 13) 2,816,245

5 Total Intragovernmenta $ 3,130,569

B. Accounts Payable 135,098

C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14) 0

D Environmental Liabilities (Note 12) 0

E. Other Liabilities (Note 13) 280,536

F Total Liabilities covered by Budgetary Resources $ 3,546,203

5. Liabilities not covered by Budgetary Resources

A Intragovernmental

1 Accounts Payable $ 0

2 Debt (Note 11) 0

3 Environmental Liabilities (Note 12) 0

4 Other Liabilities (Note 13) 0

5 Total Intragovernmental $ 0

B Accounts Payable 0

C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14) 206,521

D Environmental Liabilities (Note 12) 0

E Other Liabilities (Note 13) 0

F Total Liabilities not covered by Budgetary Resources

$	206,521		
6. Total Liabilities		$	3,752,724

NET POSITION (Note 15)

7. Unexpended Appropriations			
$	63,971		
8. Cumulative Results of Operations			
		19,284,262	
9. Total Net Position			
	$	19,348,233	
10.Total Liabilities and Net Position			
	$	23,100,957	

The accompanying footnotes are an integral part of these statements.

2-2

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the year ended September 30, 1999

($ in Thousands)

			FY 1999
1. Program Costs			
A Intragovernmental	$	6,560,032	
B With the Public		5,428,746	
C. Total Program Cost	$	11,988,778	
D (Less: Earned Revenues)	(11,460,921)		
E Net Program Costs	$	527,857	
2. Costs not assigned to Programs		$	0
3. (Less: Earned Revenues not attributable to Programs)			0
4. Net Cost of Operations	$	527,857	

5. Deferred Maintenance (See Required Supplementary Information)

Additional information included in Note

The accompanying notes are an integral part of these statements 2-3

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in Thousands)

1. Net Cost of Operations	$	527,857		
2. Financing Sources (other than exchange revenues)				
A Appropriations used	0			
B Taxes and other nonexchange revenue		0		
C. Donations - nonexchange revenue		0		
D. Imputed financing (Note 17.B)	113,608			
E. Transfers-in	15,303			
F (Transfers-out)	(1,433,799)			
G Other	0			
H Total Financing Sources (other than exchange revenues)			$	(1,304,888)
3. Net Results of Operations (Line 2H less Line 1)		$	(1,832,745)	
4. Prior Period Adjustments (Note 17.A)		(97,191)		
5. Net Change in Cumulative Results of Operations			$	(1,929,936)
6. Increase (Decrease) in Unexpended Appropriations			0	
7. Change in Net Position	$	(1,929,936)		
8. Net Position-Beginning of the Period		21,278,169		
9. Net Position-End of the Period	$	19,348,233		

Additional information included in Note 17

The accompanying notes are an integral part of these statements. 2-4

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in Thousands)

1. **Net Cost of Operations**	$	527
2. **Financing Sources (other than exchange revenues)**		
A Appropriations used		
B Taxes and other nonexchange revenue		
C Donations - nonexchange revenue		
D Imputed financing (Note 17.B)		113
E Transfers-in		15
F (Transfers-out)		(1,433,
G. Other		
H Total Financing Sources (other than exchange revenues)	$	(1,304,
3. **Net Results of Operations (Line 2H less Line 1)**	$	(1,832,
4. **Prior Period Adjustments (Note 17.A)**		(97,
5. **Net Change in Cumulative Results of Operations**	$	(1,929,
6. **Increase (Decrease) in Unexpended Appropriations**		
7. **Change in Net Position**	$	(1,929,
8. **Net Position-Beginning of the Period**		21,278
9. **Net Position-End of the Period**	$	19,348

Additional information included in Note 17.

The accompanying notes are an integral part of these statements.

2-4

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF FINANCING

For the year ended September 30, 1999

($ in Thousands)

		FY 1999
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:		
A Obligations Incurred	$	15,04
B. Less: Spending Authority for Offsetting Collections and		(14,731
C. Donations Not in the Entity's		
D Financing Imputed for Cost		11
E Transfers-in (Out)		(1,418
F Less· Exchange Revenue Not in the Entity's		(3,759
G Other		
H. Total Obligations as Adjusted and Nonbudgetary	$	(4,747.
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
A Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases	$	(418
B. Costs Capitalized on the Balance Sheet -		55
C. Financing Sources That Fund Costs of Prior		2,67
D Other - (Increases)/Decreases		(15
E. Total Resoures That Do Not Fund Net Costs of	$	2,79
3. COSTS THAT DO NOT REQUIRE RESOURCES:		
A Depreciation and	$	60
B. Revaluation of Assets and Liabilities -		1,83
C Other - Increases/(Decreases)		4
D Total Costs That Do Not Require	$	2,48
4. Financing Sources Yet to be Provided		
5. Net Cost of Operations	$	52

Additional information included in Note

The accompanying notes are an integral part of these statements.

2-6

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

ASSETS

	Depot Maintenance	Supply Management	Base Support
1. Entity Assets			
A. Intragovernmental			
1. Fund Balance with Treasury (Note 2)	$ 472,898	$ (449,660)	$ (
2 Investments, Net (Note 3)	0	0	(
3. Accounts Receivable (Note 4)	726,656	531,020	(
4. Other Assets (Note 5)	110,576	571,612	(
5 Total Intragovernmental	$ 1,310,130	$ 652,972	$ (
B. Accounts Receivable, Net (Note 4)	87,502	111,676	(
C Loans Receivable and Foreclosed Property, Net (Note 6)	0	0	(
D Cash and Other Monetary Assets (Note 7)	0	4	(
E. Inventory and Related Property, Net (Note 8)	1,511,961	17,768,285	(
F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship	1,216,513	126,843	(
G. Other Assets (Note 5)	42,966	154,158	(
H Total Entity Assets	$ 4,169,072	$ 18,813,938	$ (
2. Nonentity Assets			
A. Intragovernmental			
1. Fund Balance with Treasury (Note 2)	$ 0	$ 0	$ (
2 Accounts Receivable (Note 4)	0	0	(
3 Other Assets (Note 5)	0	0	(
4 Total Intragovernmental	$ 0	$ 0	$ (
B. Accounts Receivable, Net (Note 4)	0	0	(
C. Cash and Other Monetary Assets (Note 7)	0	0	(
D. Other Assets (Note 5)	0	0	(
E. Total Nonentity Assets	$ 0	$ 0	$ (
3. Total Assets	$ 4,169,072	$ 18,813,938	$ (

The accompanying notes are an integral part of these statements

4-1

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

ASSETS		Component Level		Combined Total	Intra-
1. Entity Assets					
A Intragovernmental					
1 Fund Balance with Treasury (Note 2)	$	(1,475)	$	270,183	$
2 Investments, Net (Note 3)		0		0	
3 Accounts Receivable (Note 4)		(110,108)		1,212,728	
4 Other Assets (Note 5)		0		682,316	
5 Total Intragovernmental	$	(111,583)	$	2,165,227	$
B. Accounts Receivable, Net (Note 4)		0		199,198	
C Loans Receivable and Related Foreclosed Property, Net (Note 6)		0		0	
D Cash and Other Monetary Assets (Note 7)		0		4	
E Inventory and Related Property, Net (Note 8)		0		19,280,246	
F. General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)		0		1,405,311	
G Other Assets (Note 5)		0		197,142	
H Total Entity Assets	$	(111,583)	$	23,247,128	$
2. Nonentity Assets					
A Intragovernmental					
1 Fund Balance with Treasury (Note 2)	$	0	$	0	$
2. Accounts Receivable (Note 4)		0		0	
3 Other Assets (Note 5)		0		0	
4 Total Intragovernmental	$	0	$	0	$
B. Accounts Receivable, Net (Note 4)		0		0	
C Cash and Other Monetary Assets (Note 7)		0		0	
D. Other Assets (Note 5)		0		0	
E Total Nonentity Assets	$	0	$	0	$
3. Total Assets	$	(111,583)	$	23,247,128	$

The accompanying notes are an integral part of these statements

4-2

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

LIABILITIES	Depot Maintenance	Supply Management	Base Support
4. Liabilities covered by Budgetary Resources			
A. Intragovernmental			
1 Accounts Payable	$ 52,152	$ 497,977	$
2 Debt (Note 11)	0	0	
3 Environmental Liabilities (Note 12)	0	0	
4. Other Liabilities (Note 13)	2,371,191	298,780	
5 Total Intragovernmental	$ 2,423,343	$ 796,757	$
B. Accounts Payable	18,472	108,148	
C Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)	0	0	
D. Environmental Liabilities (Note 12)	0	0	
E Other Liabilities (Note 13)	268,598	11,525	
F. Total Liabilities covered by Budgetary Resources	$ 2,710,413	$ 916,430	$
5. Liabilities not covered by Budgetary Resources			
A Intragovernmental			
1. Accounts Payable	$ 0	$ 0	$
2 Debt (Note 11)	0	0	
3 Environmental Liabilities (Note 12)	0	0	
4 Other Liabilities (Note 13)	0	0	
5. Total Intragovernmental	$ 0	$ 0	$
B Accounts Payable	$ 0	$ 0	$
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	0	0	
D Environmental Liabilities (Note 12)	0	0	
E Other Liabilities (Note 13)	0	0	
F Total Liabilities not covered by Budgetary Resources	$ 0	$ 0	$
6. Total Liabilities	$ 2,710,413	$ 916,430	$

The accompanying notes are an integral part of these statements 4-3

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
($ in Thousands)

LIABILITIES		Component Level		Combined Total		Intra-entit
4. Liabilities covered by Budgetary Resources						
A Intragovernmental						
1. Accounts Payable	$	(105,002)	$	457,906	$	
2 Debt (Note 11)		0		0		
3. Environmental Liabilities (Note 12)		0		0		
4. Other Liabilities (Note 13)		0		2,818,834		
5. Total Intragovernmental	$	(105,002)	$	3,276,740	$	
B. Accounts Payable		(6,300)		135,098		
C Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 14)		0		0		
D Environmental Liabilities (Note 12)		0		0		
E. Other Liabilities (Note 13)		0		280,536		
F. Total Liabilities covered by Budgetary Resources	$	(111,302)	$	3,692,374	$	
5. Liabilities not covered by Budgetary Resources						
A Intragovernmental						
1. Accounts Payable	$	0	$	0	$	
2. Debt (Note 11)		0		0		
3 Environmental Liabilities (Note 12)		0		0		
4 Other Liabilities (Note 13)		0		0		
5 Total Intragovernmental	$	0	$	0	$	
B Accounts Payable		0		0		
C Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)		206,522		206,521		
D Environmental Liabilities (Note 12)		0		0		
E Other Liabilities (Note 13)		0		0		
F Total Liabilities not covered by Budgetary Resources	$	206,522	$	206,521	$	
6. Total Liabilities	$	95,220	$	3,898,895	$	

The accompanying notes are an integral part of these statements

4-4

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999

($ in Thousands)

NET POSITION (Note 15)	Depot Maintenance	Supply Management	Base Support	I
7. Unexpended Appropriations	$ 0	$ 63,971	$ 0	$
8. Cumulative Results of Operations	1,458,659	17,833,537	0	
9. Total Net Position	$ 1,458,659	$ 17,897,508	$ 0	$
10.Total Liabilities and Net Position	$ 4,169,072	$ 18,813,938	$ 0	$

NET POSITION (Note 15)	Component Level	Combined Total	Intra-entity eliminations	C
7. Unexpended Appropriations	$ 0	$ 63,971	$ 0	$
8. Cumulative Results of Operations	(206,803)	19,284,262	0	
9. Total Net Position	$ (206,803)	$ 19,348,233	$ 0	$
10.Total Liabilities and Net Position	$ (111,583)	$ 23,247,128	$ (146,171)	$

The accompanying notes are an integral part of these statements

4-5

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST

For the year ended September 30, 1999

($ in Thousands)

1. Program Costs		Total		Intra-entity eliminations		Consolidated Totals
A. Depot Maintenance						
1 Intragovernmental	$	2,569,846				
2 With the Public		2,316,744				
3 Total Program Cost	$	4,886,590				
4 (Less: Earned Revenues)		(5,215,254)				
5 Net Program Costs	$	(328,664)				
B. Supply Management						
1 Intragovernmental	$	8,206,198				
2 With the Public		2,727,579				
3 Total Program Cost	$	10,933,777				
4 (Less Earned Revenues)		(10,219,422)				
5 Net Program Costs	$	714,355				
C. Base Support						
1 Intragovernmental	$	0				
2 With the Public		22,519				
3 Total Program Cost	$	22,519				
4 (Less Earned Revenues)		(30)				
5 Net Program Costs	$	22,489				
D. Information Services						
1 Intragovernmental	$	95,858				
2 With the Public		359,298				
3 Total Program Cost	$	455,156				
4 (Less: Earned Revenues)		(451,971)				
5 Net Program Costs	$	3,185				
E. E. Transportation						
1 Intragovernmental	$	0				
2 With the Public		0				
3 Total Program Cost	$	0				
4 (Less Earned Revenues)		0				
5 Net Program Costs	$	0				
F. Component Level						
1 Intragovernmental	$	118,715				
2 With the Public		2,606				
3 Total Program Cost	$	121,321				
4 (Less Earned Revenues)		(4,829)				
5 Net Program Costs	$	116,492				
G. Total Program Costs						
1 Intragovernmental	$	10,990,617	$	(4,430,585)	$	6,560,
2 With the Public		5,428,746		0		5,428,
3 Total Program Cost	$	16,419,363	$	(4,430,585)	$	11,988,
4 (Less Earned Revenues)		(15,891,506)		4,430,585		(11,460,9
5 Net Program Costs	$	527,857	$	0	$	527,
2. Costs not assigned to Programs		0		0		
3. (Less: Earned Revenues not attributable to Programs)		0		0		
4. Net Cost of Operations	$	527,857	$	0	$	527,
5. Deferred Maintenance (See Required Supplementary Information)						

Additional information included in Note 16.

The accompanying notes are an integral part of these statements.

4-6

Department of Defense
Department of the Air Force Working Capital Fund
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999

($ in Thousands)

	Depot Maintenance	Supply Management	Base Support
1. Net Cost of Operations	$ (328,664)	$ 714,355	$ 22,
2. Financing Sources (other than exchange revenues)			
A Appropriations used	0	0	
B Taxes and other nonexchange revenue	0	0	
C Donations - nonexchange revenue	0	0	
D. Imputed financing (Note 17.B)	0	0	
E Transfers-in	95,075	0	
F. (Transfers-out)	(100,525)	0	
G Other	0	0	
H. Total Financing Sources (other than exchange revenues)	$ (5,450)	$ 0	$
3. Net Results of Operations (Line 2H less Line 1)	323,214	(714,355)	(22,4
4. Prior Period Adjustments (Note 17.A)	23,703	(122,960)	
5. Net Change in Cumulative Results of Operations	$ 346,917	$ (837,315)	$ (21,8
6. Increase (Decrease) in Unexpended Appropriations	0	0	
7. Change in Net Position	$ 346,917	$ (837,315)	$ (21,8
8. Net Position-Beginning of the Period	1,111,742	18,734,823	21,
9. Net Position-End of the Period	$ 1,458,659	$ 17,897,508	$

Additional information included in Note

The accompanying notes are an integral part of these statements.

4-7

Department of Defense
Air Force Working Capital Fund
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
($ in Thousands)

		Component Level		Combined Total	
1. Net Cost of Operations	$	116,492	$	527,857	$
2. Financing Sources (other than exchange revenues)					
A. Appropriations used		0		0	
B Taxes and other nonexchange revenue		0		0	
C. Donations - nonexchange revenue		0		0	
D Imputed financing (Note 17.B)		113,608		113,608	
E. Transfers-in		0		95,075	
F (Transfers-out)		0		(1,513,571)	
G. Other		0		0	
H Total Financing Sources (other than exchange revenues)	$	113,608	$	(1,304,888)	$
3. Net Results of Operations (Line 2H less Line 1)	$	(2,884)	$	(1,832,745)	$
4. Prior Period Adjustments (Note 17.A)		0		(97,191)	
5. Net Change in Cumulative Results of Operations	$	(2,884)	$	(1,929,936)	$
6. Increase (Decrease) in Unexpended Appropriations		0		0	
7. Change in Net Position	$	(2,884)	$	(1,929,936)	$
8. Net Position-Beginning of the Period		(203,919)		21,278,169	
9. Net Position-End of the Period	$	(206,803)	$	19,348,233	$

Additional information included in Note

The accompanying notes are an integral part of these statements

4-8

Department of Defense
Air Force Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

BUDGETARY RESOURCES:		Depot Maintenance		Supply Management	
1. Budget Authority	$	3,205	$	1,492,889	$
2 Unobligated Balance - Beginning of		(1,100,918)		49,826	
3 Net Transfers Prior-Year Balance, Actual		0		84,056	
4. Spending Authority from Offsetting		5,791,761		8,413,225	
5 Adjustments (+/-)		0		(24,541)	
6. Total Budgetary	$	4,694,048	$	10,015,455	$
STATUS OF BUDGETARY RESOURCES:					
7 Obligations Incurred	$	4,708,074	$	9,965,629	$
8. Unobligated Balances -		(14,026)		49,826	
9 Unobligated Balances - Not		0		0	
10 Total, Status of Budgetary	$	4,694,048	$	10,015,455	$
OUTLAYS:					
11. Obligations	$	4,708,074	$	9,965,629	$
12. Less: Spending Authority From Offsetting Collections and		(5,791,761)		(8,413,225)	
13 Obligated Balance, Net - Beginning of		1,630,805		1,193,055	
14. *Obligated Balance Transferred,*		0		0	
15. Less. Obligated Balance, Net - End of Period		(599,126)		(2,431,630)	
16 Total Outlays	$	(52,008)	$	313,829	$

Additional information included in Note

The accompanying notes are an integral part of these statements. 4-9

Department of Defense
Air Force Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
($ in Thousands)

BUDGETARY RESOURCES:	Transportation	Compone
1 Budget Authority	$ 0	$ 1,497,752
2 Unobligated Balance - Beginning of	114,696	
3 Net Transfers Prior-Year Balance, Actual	30,232	
4 Spending Authority from Offsetting	(225)	
5 Adjustments (+/-)	12,247	
6 Total Budgetary	$ 156,950	$ 15,560,652
STATUS OF BUDGETARY RESOURCES:		
7. Obligations Incurred	$ 0	$ 15,048,463
8 Unobligated Balances -	156,950	
9 Unobligated Balances - Not	0	
10 Total, Status of Budgetary	$ 156,950	$ 15,560,652
OUTLAYS:		
11 Obligations Incurred	$ 0	$ 15,048,463
12 Less Spending Authority From Offsetting Collections and	(12,022)	
13 Obligated Balance, Net - Beginning of	528,680	
14 Obligated Balance Transferred,	(509,966)	
15. Less Obligated Balance, Net-End of Period	1,275	
16 Total Outlays	$ 7,967	$ 277,087

Additional information included in Note

The accompanying notes are an integral part of these statements. 4-10

Department of Defense
Air Force Working Capital Fund
COMBINING STATEMENT OF FINANCING
For the year ended September 30, 1999
($ in Thousands)

		Depot Maintenance		Supply Manager
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:				
A Obligations Incurred	$	4,708,074	$	9,96
B Less· Spending Authority for Offsetting Collections and		(5,791,761)		(8,413
C Donations Not in the Entity's		0		
D Financing Imputed for Cost		0		
E. Transfers-in (Out)		(5,451)		
F. Less Exchange Revenue Not in the Entity's		(222,030)		(3,537
G Other		0		
H. Total Obligations as Adjusted and Nonbudgetary	$	(1,311,168)	$	(1,985
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:				
A Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases		953,334		(1,505
B Costs Capitalized on the Balance Sheet -		9,504		53
C Financing Sources That Fund Costs of Prior		(83,213)		1,71
D Other - (Increases)/Decreases		(13,110)		
E Total Resoures That Do Not Fund Net Costs of	$	866,515	$	74
3. COSTS THAT DO NOT REQUIRE RESOURCES:				
A Depreciation and	$	118,103	$	8
B. Revaluation of Assets and Liabilities -		(42,625)		1,86
C Other - Increases/(Decreases)		40,511		
D Total Costs That Do Not Require	$	115,989	$	1,95
4. Financing Sources Yet to be Provided:		0		
5. Net Cost of Operations:	$	(328,664)	$	71

Additional information included in Note

The accompanying notes are an integral part of these 4-11

Department of Defense
Air Force Working Capital Fund
COMBINING STATEMENT OF FINANCING
For the year ended September 30, 1999
($ in Thousands)

		Transportation	
1. OBLIGATIONS AND NONBUDGETARY RESOURCES:			
A Obligations Incurred	$	0	$
B. Less. Spending Authority for Offsetting Collections and		(12,022)	
C Donations Not in the Entity's		0	
D Financing Imputed for Cost		0	
E Transfers-in (Out)		(1,413,045)	
F Less Exchange Revenue Not in the Entity's		0	
G. Other		0	
H Total Obligations as Adjusted and Nonbudgetary	$	(1,425,067)	$
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:			
A Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided - (Increases)/Decreases		9,627	
B. Costs Capitalized on the Balance Sheet -		0	
C. Financing Sources That Fund Costs of Prior		1,417,835	
D Other - (Increases)/Decreases		(2,395)	
E Total Resoures That Do Not Fund Net Costs of	$	1,425,067	$
3. COSTS THAT DO NOT REQUIRE RESOURCES:			
A Depreciation and	$	0	$
B Revaluation of Assets and Liabilities -		0	
C. Other - Increases/(Decreases)		0	
D. Total Costs That Do Not Require	$	0	$
4. Financing Sources Yet to be Provided:		0	
5. Net Cost of Operations:	$	0	$

Additional information included in Note

The accompanying notes are an integral part of these 4-1

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DEPARTMENT OF THE AIR FORCE

WORKING CAPITAL FUNDS

CONSOLIDATED

FOOTNOTES TO THE PRINCIPAL STATEMENTS

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, 1999

NOTE 1. Significant Accounting Policies:

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), United States Air Force, as required by the Chief Financial Officers (CFOs) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DoD, United States Air Force Working Capital Fund in accordance with "Department of Defense Financial Management Regulation" (DoDFMR") as adapted from Office of Management and Budget (OMB) Bulletin No. 97-01, "Form and Content of Agency Financial Statements" and to the extent possible the Statements of Federal Financial Accounting Standards (SFFAS). The DoD, United States Air Force Working Capital Fund's statements are in addition to the financial reports also prepared by the DoD, United States Air Force Working Capital Funds pursuant to OMB directives that are used to monitor and control the DoD United States Air Force Working Capital Fund's use of budgetary resources.

The DoD United States Air Force Working Capital Fund is unable to implement all elements of the SFFAS due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DoD United States Air Force Working Capital Fund's major asset and liability categories are derived nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations and not the current emphasis of business-like financial management. As a result, the DoD_United States Air Force Working Capital Fund can not currently implement all elements of the SFFAS. The DoD United States Air Force Working Capital Fund continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances when the DoD United States Air Force Working Capital Fund's application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, the DoD United States Air Force Working Capital Fund has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent. Financial statement elements impacted by these differences of interpretations include financial payments under fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

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 Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The overall mission of the Air Force is to defend the United States through control and exploitation of air and space. Fiscal year (FY) 1999 represents the fourth year that the Department will prepare and have audited, DoD Agency-wide financial statements as required by the CFO Act and the GMRA.

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

The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

The accompanying audited financial statements account for all resources for which the DoD United States Air Force Working Capital Fund is responsible except that information relative to classified assets, programs, and operations have been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For fiscal year (FY) 1999, the DoD United States Air Force Working Capital Fund's financial management systems are unable to meet all of the requirements for full accrual accounting. Efforts are underway to bring the Air Force's systems into compliance with all elements of the SFFAS.

C. Budgets and Budgetary Accounting:

The Department's major activities are funded through working capital (revolving funds). The accompanying financial statements are for the working capital (revolving funds) of the Department of the Air Force.

1. The DoD expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the

DBOF became the Defense Working Capital Funds (DWCFs). The DWCFs, "the Funds" operate with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Funds build on revolving fund principles previously used for industrial and commercial-type activities. The DoD's working capital funds include industrial and commercial type transactions, e.g., Supply Management, Depot Maintenance, Transportation, Base Support, Component, and Information Services - Air Force Central Design. The Department of the Air Force administers the Air Force Working Capital Fund.

2. These activities provide goods and services on a commercial-like basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

3. Air Force budgetary accounting is not transaction driven, therefore proprietary accounts are used to develop the Report on Budget Execution, SF133, for reporting budgetary data. The prior fiscal year's SF133 budgetary account totals were used to post current fiscal year beginning balances to the trial balance, and the current fiscal year's SF133 account totals were used to post changes that occurred within the fiscal year. This allowed the CFO system to produce the Statement of Budgetary Resources by populating each line from the budgetary accounts in the trial balance.

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 six active business activities in the Supply Management Activity Groups (SMAG). They are: Materiel Support Division (MSD), General Support Division (GSD), Medical-Dental Division, Fuels Division (including aviation, ground, missile and cost of operations fuels), Academy Division, and Troop Support.

Depot Maintenance

The Air Force Depot Maintenance Activity Group (DMAG) 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 DMAG achieves this flexibility by employing the unique strengths of organic (in house) and contractor repair sources.

Base Support

This will be the final year statements and footnotes are prepared for this business activity. Effective September 30, 1999 all remaining residual activity was transferred to the Supply Management Activity Group. The Air Force Base Support Activity Group consisted 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 remained.

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. Note: the residual transfer out amount remaining in the United States Transportation Command (USTC), is included and merged with Air Force Transportation.

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 prepared at DFAS Cleveland and forwarded to DFAS Denver for inclusion in with Air Force WCF statements.

United States Transportation Command

Program Budget Decision Number 426 directed the transfer of the United States Transportation Command (USTC) from the Defense-Wide Working Capital Fund (DWWCF) to the Air Force Working Capital Fund (AFWCF) in FY 1998. The Office of the Under Secretary Defense, Chief Financial Officer, determined based on comments received during the DoD Financial Management Regulation, 7000.14-R, Volume 6B, Form and Content of the Department of Defense Audited Financial Statements, review process, not to report in fiscal year 1999, USTC with Air Force Working Capital Funds. Hence, the

USTC statements will be reported along with Other Defense Organizations Working Capital Fund Consolidated statements submitted by DFAS-Indianapolis. The USTC remains part of the Air Force Budget operations for all other financial reporting.

Operations of these activities are based on the policies and procedures that 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, which exceed a unit cost of $100,000 or more, are subject to depreciation. In addition, capital assets previously capitalized using established thresholds for prior years 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 group 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.

The FY 1999, 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:

($ in Thousands)

Division	Sales	Cost of Sales and Expenses	Net Operating Results
Air Force	$10,993,777	($10,219,422)	$714,355
Total	$10,993,777	($10,219,422)	$714,355

Depot Maintenance
Revenues, Expenses, and Net Operating Results by Division
(in dollars & cents)

Division	Revenues	Expenses	Net Operating Results
Air Force	$4,886,590	($5,215,254)	($328,664)
Total	$4,886,590	($5,215,254)	($328,664)

Information Services
Revenue and Expenses, and Net Operating Results by Division
(in dollars & cents)

Division	Revenues	Expenses	Net Operating Results
Air Force	$455,156	($451,971)	$3,185
Total	$455,156	($451,971)	$3,185

Amounts shown in the three tables are before intra-agency eliminations.

D. Basis of Accounting:

The United States Air Force's Working Capital Funds generally record transactions on an accrual accounting basis as is required by the SFFAS. Currently, the Air Force's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis as is required by the SFFAS. In those circumstances, the Air Force makes accrual adjustments for major items such as payroll expenses, interfund transactions, accounts payable, other pension benefit expenses, environmental liabilities, etc. The Air Force has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of the SFFAS. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USGSGL). Until such time as all of the Air Force's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by the SFFAS, some of the Air Force's financial data will be based on budgetary obligations, disbursements, collection transactions, and on financial feeder systems. One example is the information presented on the Statement of Net Cost. Much of this information is based on obligations and disbursements, and not actual accrued costs.

Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. However, the cash basis of accounting may be followed if the reported activity and balances are not materially significant. 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. The effect of known intrafund transactions are eliminated.

1. 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.

2. 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 USSGL chart of accounts to produce the financial statements.

In addition, the Air Force identifies programs based upon the major appropriation groups provided by Congress. The Air Force is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4 with the need to keep the financial statements from becoming overly voluminous.

E. Revenues and Other Financing Sources:

Revenue for working capital fund activities is recognized at the point the rendered service is completed and billed at the point inventory items are sold. For financial reporting purposes, DoD policy requires the

recognition of operating expenses in the period incurred. However, because the Department's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual basis, accrual adjustments are made for major items in an attempt to report expenses when incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the Department's operations. Unexpended appropriations are recorded as Air Force equity.

Each working capital 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 MSD 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 Under 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. 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. (Note 8A provides additional disclosures.)

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.

4. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period which payment is made.

F. Accounting for Intragovernmental Activities:

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

1. The Air Force's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related interests costs are not apportioned to federal agencies. The Air Force's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues. Material disclosures are provided at Note 11.

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

3. The Air Force'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. The Air Force funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of Office of Personnel Management (OPM). The Air Force recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the statement of net cost; and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the statement of changes in net position. The Air Force reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund financial statements. The Air Force recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements. Total contributions to these retirement plans and Social Security are included in the Component financial statements.

4. The Air Force sells assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provision of the Act, the Air Force has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Military Services are reimbursed for the cost of administering and executing the sales. In FY 1999, the Air Force received reimbursements of $426,508 million for assets and services sold under the Foreign Military Sales program.

5. To prepare reliable financial statements, transactions occurring between 2 or more entities within the DoD or between two or more federal agencies must be eliminated. However, the Air Force, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the Air Force provided summary seller-side transactions to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with seller-side. Internal DoD intragovernmental balances were eliminated. In addition, the Air Force implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM. As further improvements are made at the governmentwide level, the Air Force plans on expanding their eliminating procedures to include additional categories.

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

The Air Force's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Service disbursing stations as well as Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, interagency transfers and deposits. In addition, the DFAS centers and the U.S. Army Corps

of Engineers Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance With Treasury (FBWT) account maintained in the Treasury's system. Differences between the Air Force's recorded balance in the FBWT account and Treasury's FBWT are reconciled. Material Disclosures are provided at Note 2.

H. Foreign Currency:

Not applicable.

I. Accounts Receivable:

As presented in the Consolidated Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Code of Federal Regulations (4 CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables. Material disclosures are provided at Note 4. 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 and Related Property:

Inventories are reported at Latest Acquisition Cost (LAC). The LAC is calculated by subtracting appropriate surcharges from the Standard Cost to determine the price most recently paid for a managed item. Gains and losses that result from valuation changes for inventory items are recognized and reported in the net cost statement and are included in the calculation of the cost of goods sold. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. These legacy systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these legacy systems provide controls to ensure accountability and visibility over inventory items, they were not designed to ensure that all of the inventory items are included in the values reported in the Balance Sheet.

1. Within the Materiel Support Division, inventory is valued at either LAC or carcass. Carcass value is calculated within the pricing system and is included in any transaction when needed. Gains and losses that result from valuation changes for inventory items are recognized and reported in the net cost statement and included in the calculation of the cost of goods sold. Other material disclosures related to inventory and related property are provided in Note 8. 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.

2. Operating materials and supplies (OM&S) are reported at their standard price (SP). The SP method is used because OM&S data is maintained in logistics systems designed for materiel management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, Accounting for Inventory and Related Property.

3. The related property portion of the amount reported on the Inventory and Related Property line includes OM&S, stockpile materials, seized property, and forfeited property. OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. The DoD is moving to the consumption method of accounting for OM&S in future years, except in those cases that meet the requirement for the purchase method as defined in the SFFAS No. 3.

4. Material disclosures related to inventory and related property are provided at Note 8.

L. Investments in U.S. Treasury Securities:

Not applicable.

M. General Property, Plant and Equipment (PP&E):

1. General Property, Plant, and Equipment (PP&E) assets are capitalized when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD contracted with two certified public accounting firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. Both studies recommended that the DoD retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis unless otherwise noted. General PP&E land is not depreciated.

2. Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized.

3. Regarding base closure and realignment, thirty-two bases have been officially closed or realigned including: Pease AFB, NH in Mar 91; Eaker AFB, AR, England AFB, LA, and George AFB, CA in Dec 92; Myrtle Beach AFB, SC in Mar 93; Wurtsmith AFB, MI in June 93; Bergstrom AFB, TX, Chanute AFB, IL, Mather AFB, CA, and Williams AFB, AZ in Sep 93; Homestead AFB, FL, MacDill AFB, FL, and Norton AFB, CA in Mar 94; Grissom AFB, IN, Loring AFB, ME, Lowry AFB, CO, Richards-Gebaur AFB, MO, and Rickenbacker AGB, OH in Sep 94; Castle AFB, CA, Griffiss AFB, NY, KI Sawyer AFB, MI, and Plattsburgh AFB, NY in Sep 95; March AFB, CA in Mar 96; Newark AFB, OH in Sep 96; Gentile AFS, OH in Dec 96; Bergstrom ARS, TX, Hill AFB (UTTR), UT, Buffalo Activity (REDCAP), NY, and Reese AFB, TX in Sep 97; Ontario AFB, CA, Grand Forks AFB, ND in Sep 98. There are seven closure or realignment installations pending between Jul 99 and Jul 01: O'Hare ARB, IL; EMTE Activity, FL; Roslyn ANG, NY; Onizuka AFB, CA; Kelly AFB, TX; Malstrom AFB, MT; and McClellan AFB, CA. For more information, visit the web cite: www.safmi.hq.af.mil. Assets at closed BRAC locations are not included in the property, plant and equipment amounts reflected on these financial statements, because these assets are considered excess with no further operational value to the Air Force and because any funds obtained from disposition of these assets will accrue to the US Treasury rather than the Air Force. System limitations do not allow for any differentiation between lands involved in BRAC actions and those which are not, so these properties are combined for reporting purposes.

4. To bring the Air Force into compliance with federal accounting standards, the DoD will issue new property accountability regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions will be structured to provide the information necessary for compliance with federal-wide accounting standards.

5. Material disclosures are provided at Note 9.

N. Prepaid and Deferred Charges:

Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received. 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 and with the public. For all the other Air Force activity groups, this area is not applicable.

O. Leases:

Not applicable.

P. Other Assets:

The Air Force conducts business with commercial contractors under two primary types of contracts-fixed price and cost reimbursable. In order to alleviate the potential financial burden on the contractor that these long-term contracts can cause, the Air Force provides financing payments. One type of financing payment that the Air Force makes is based upon a percentage of completion. In accordance with SFFAS No 1., "Accounting for Selected Assets and Liabilities," these payments are reported as work in process and are not reported as advances or prepayments in the "Other Assets" line item. However, the Air Force has reported progress payments provided to contractors under the terms of fixed price contracts as an advance or prepayment in the " Other Assets" line item. The Air Force treats these payments as advances or prepayments because the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force or the full amount of the advance. The Air Force does not believe that the SFFAS No. 1 addresses this type of financing payments, however, GAO, and the IG, DoD do.

Q. Liabilities and Contingencies:

Not applicable.

R. 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. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

S. Equity:

1. Equity consists of unexpended appropriations and cumulative result of operations. 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. In general, WCF does not deal with unexpended appropriations. Only Supply Management has unexpended appropriations.

2. Cumulative results of operations represents the difference since inception of an activity between expenses and losses, and financing sources including appropriations, revenue, and gains. Beginning FY 1998, this will include the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there is no longer a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or precredit reform loans, or a separate negative amount shown for future funding requirements. Cumulative results of operations for WCFs represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

T. Treaties for Use of Foreign Bases:

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. Capital investments in buildings and other facilities (for example, runways) located on the overseas bases are capitalized as stipulated in Note 1.M. 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 DoD. Therefore, in the event treaties or other agreements are terminated whereby use of foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the United States and the host country have been concluded to determine the amount to be paid the United States for such capital investments.

U. Comparative Data:

Comparative data is not required by OMB 97-01 until FY 2000 annual statements. Comparative data will be presented starting in FY 2000 in order to provide an understanding of changes in the financial position and operations of the Air Force's reporting activities.

V. Undelivered Orders:

The Air Force was obligated to pay undelivered orders (good and services that have been ordered but not yet received) amounting to $5.2B at fiscal year end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2. Fund Balances with Treasury:
($ In Thousands)

1. Fund Balances:

Fund Type	Entity Assets	Non Entity Assets	Total
a. Appropriated Funds	0	0	0
b. Revolving Funds	$270,183	0	270,183
c. Trust Funds	0	0	0
d. Other Fund Types	0	0	0
e. Total	270,183	0	270,183

2. Fund Balance Per Treasury Versus Agency:

	Entity Assets	Non-Entity Assets
a. Fund Balance Per Treasury	$548,155	$0
b. Fund Balance Per Air Force WCF	270,183	0
c. Reconciling Amount	$277,972	0

3. Explanation of Reconciliation Amount:

A transfer of $278M represents cash transferred to Other Defense Organizations for United States Transportation Command (USTC). The transfer of USTC is for CFO reporting only. See footnote 1.C paragraphs on Transportation and United States Transportation Command.

4. Other Information Related to Fund Balance With Treasury:

The Fund Balance with Treasury does not include any amounts for which the Department of the Treasury is willing to accept corrections to canceled appropriation accounts, in accordance with SFFAS Number 1.

The FBWT number for Supply Management is ($450M). This condition is driven by the balance found in the Materiel Support Division (MSD). There are two primary reasons why MSD FBWT is an adverse balance: a change in ownership of the FBWT and the surcharge has not collected adequate cash to cover the expenses incurred.

Fund Balances with Treasury are maintained at the Air Force DWCF corporate business area today. In 1992, when the Defense Business Operating Fund was established, the FBWT was moved from the Air Force level to the Department of Defense level. In 1996, the DWCF was established and the FBWT was given back to the Air Force level. However, the allocation of FBWT was at a lower level than the level transferred out. (The cash balance had been maintained at 10 days worth of cash. What was allocated back was 3 days worth of cash. The days are based on the average of cash needed to pay vendors.) The fund has been "under funded" since that time.

In addition, the policy of full cost recovery was put in place when DBOF was established (1992). At the same time the reparable spares were capitalized into the SMAG from the general funds general ledger. These two changes drove significant changes to the development of surcharge rates now called cost recovery rates. In 1997, the Materiel Support Division was formed as a merger of Reparable Support Division, Systems Support Division and the Cost Of Operations Division. Also, the entire pricing and cost recovery development process was changed as an attempt to improve the process. MSD is the only division of SMAG which includes both the overhead costs and repair costs. Combining this with changing flying hour programs, base closures, and continuing peace keeping missions, means budgeting and pricing for MSD was severely challenged. Each year, since inception, the MSD pricing computation had to be changed to meet the changing missions.

Note 3. Investments:

Not applicable.

Note 4. Accounts Receivable:

($ in Thousands)

	(1) Gross Amount Due	(2) (Allowance For Estimated Uncollectible)	(3) Net Amount Due
1. Entity Receivables:			
a. Intragovernmental	$1,069,144	**N/A**	$1,069,144
b. With the Public	$201,700	(2,503)	$199,197
2. Non-Entity Receivables:			
a. Intragovernmental			
(1) Cancelled appropriations	$0	N/A	$0
(2) Other	$0	N/A	$0
b. With the Public			
(1) Cancelled appropriations	$0	$0	$0
(2) Other	$0	$0	$0

3. Allowance Method Used:

The Supply Management Activity Group uses an allowance method based on historical data from prior year accounts receivable balances, write-offs, and collection policy. Review of individual accounts receivable transferred to DFAS-Denver, Debt Management Operations Division, often reveals invalid receivables that the Standard Base Supply System should have posted as an issue without reimbursement, instead of a sale. Depot Maintenance generally uses the direct write-off method for uncollectible accounts.

4. Other Information:

None

Note 5. Other Assets:
($ in Thousands)

1. Other Entity Assets:

a. Intragovernmental	
1. Assets Returned for Credit	$0
2. Advances and Prepayment	$170,991
3. Other	508,736
4. Total Intragovernmental	$679,727
b. Other	
1. Outstanding Contract Financing Payments	$0
2. Other	$197,142
3. Total Other	$197,142

2. Other Information related to entity assets:

The Air Force has reported financing payments for fixed price contracts as an advance and prepayment because under the terms of the fixed price contracts, the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Air Force for the full amount of the advance. The Air Force does not believe that the Statement of Federal Financial Accounting Standard (SFFAS) No. 1 addresses this type of financing payment. The auditors disagree with the Air Force's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Advances and prepayments include $167.9M for advances to government agencies and $3M for prepaid expenses.

For SMAG, the majority of intragovernmental other assets are reported by five Air Logistics Centers as sales of Materiel Support Division (MSD) assets to foreign governments. These deliveries cannot be billed until each delivery is matched to a proof of shipment within SAMIS. The Other Intragovernmental Assets account consists of the following categories and dollar amounts, in thousands:

FMS Sales (Depot)	424,409
AF Assets Other DoD FMS (Depot)	2,099
Uncollectible Federal Excise Taxes	1,073
Returns to Vendor Pending Credit	61,568
Miscellaneous Other Assets	19,587
Total	508,736

The amount of $197,142 on Line 1(b)(2) represents advances to contractors and suppliers.

3. Other Non-Entity Assets:

Not applicable.

4. Other Information related to nonentity assets:

Not applicable.

Note 6. Loans Receivable and Related Foreclosed Property, Net:

Not applicable.

Note 7. Cash and Other Monetary Assets

($ in Thousands)

	Entity Assets	Non-Entity Assets
1. Cash	$4	$0
2. Foreign Currency	0	0
3. Other Monetary Assets:		
4. Total Cash, Foreign Currency and Other Monetary Assets	$4	$0

5. Other Information:

The $4K in entity cash represents undeposited collections reported by Ramstein AB, Germany for a disbursing agent.

Note 8. Summary of Inventory and Other Related Property Net:
($ in Thousands)

	Amount
Inventory, Net (Note 8.A.)	$18,386,447
Operating Materials and Supplies, Net (Note 8.B.)	893,799
Stockpile Materials, Net (Note 8.C.)	0

Seized Property	0
Forfeited Property	0
Goods Held Under Price Support and Stabilization Programs	0
Total	$19,280,246

Note 8.A. Inventory, Net
($ in Thousands)

	(1) Inventory Amount	(2) Allowance for Gains (Losses)	(3) Inventory, Net	(4) Valuation Method
1. Inventory Categories:				
(a) Available and Purchased for Resale	$20,705,262	($14,272,881)	6,432,381	LAC
(b) Held in Reserve for Future Sale	0	0	0	
(c) Held for Repair	10,822,660	0	10,822,660	O
(d) Excess, Obsolete, and Unserviceable	138,048	0	138,048	O
(e) Raw Materials	0	0	0	
(f) Work in Process	993,358	0	993,358	LAC
(g) Total	$32,659,328	($14,272,881)	$18,386,447	

2. Restrictions 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

3. Other Information:
Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain historical cost data necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Supply Management is the only Air Force Activity group that has inventory. The Supply Management activities maintain day-to-day individual inventory stock records on items valued in the supply systems at Latest Acquisition Cost (LAC). This valuation method is per the direction of the DoD Comptroller. These values are based on prices paid for recently acquired items. However, 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 Materiel Support Division which is the only activity that carries depot-level repairable items. Based on current policies and procedures, it has been determined that the net realized value is 2.9 percent of acquisition cost.

The amount reported as inventory work in process includes work in process at the depot maintenance activities. The work in process at the depot maintenance activities had to be recorded as inventory work in process because the U.S. Government Standard General Ledger does not contain an account for work in process that is not inventory held for sale. Work-In-Process (WIP) is used to value that portion of the maintenance contract that has been completed. The value of WIP is used in the cost of goods computation and appears on the AR(M)1307 report. The $993,358 represents Depot Maintenance Activity Group (DMAG) work primarily at Kelly AFB. A comparison of current and prior year WIP indicates an increase in contract labor and material. DMAG recognizes revenue incrementally. As job orders are completed, revenue is recognized by multiplying the completed job order by the appropriate sales rate. Since job orders can be associated with a specific contract, it can be said that a portion of that contract has been completed.

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Note 8B. Operating Materials and Supplies (OM&S), Net:
($ in Thousands)

	(1) OM&S Amount	(2) Allowance For Gains (Losses)	(3) OM&S, Net	(4) Valuation Method
1. OM&S Categories:				
(a) Held for Use	$893,799	0	$893,799	SP
(b) Held in Reserve for Future Sale	0	0	0	
(c) Excess, Obsolete and Unserviceable	0	0	0	

(d) Total	$893,799	0	$893,799

2. Restrictions on operating materials and supplies: None

3. Other Information:

OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements. Work in process at depot maintenance activities is included as inventory in process in Note 8A because U.S. Government Standard General Ledger does not contain an account for work in process that is not inventory held for sale. The Air Force uses the consumption method of accounting for OM&S where the Air Force believes it to be more cost beneficial than the purchase method. As stated above, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The Air Force has reached an agreement with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, Department of Defense (IG, DoD) to move to the consumption method of accounting for OM&S in future years. Based on this agreement, the DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analyses for use in determining whether the consumption method is cost beneficial for selected instances of OM&S; (2) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (3) develop functional requirements for feeder systems to support the consumption method; and (4) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However for fiscal year 1999, significant portions of the Air Force's OM&S were reported under the purchase method because

either the systems could not support the consumption method of accounting or there is a disagreement with the audit community on what constitutes an item being in the hands of an end user.

All Air Force activity groups, except Supply Management, have operating materials and supplies. The activity groups use these materials and supplies in support of their respective missions.

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Note 8.C. Stockpile Material, Net:
($ In Thousands)

Not applicable.

Note 8.D. Seized Property:

Not applicable.

Note 8.E. forfeited Property, Net:

Not applicable.

Note 8.F. Goods Held Under Price Support and Stabilization Programs, Net:

Not applicable.

Note 9. General Property, Plant, and Equipment (PP&E), Net.
($ in Thousands)

	(1) Depreciation/ Amortization Method	(2) Service Life	(3) Acquisition Value	(4) (Accumulated Depreciation/ Amortization)	(5) Net Book Value
1 Major Asset Classes					
a Land	N/A	N/A	$0	N/A	$0
b. Buildings, Structures, and Facilities	SL	20 or 40	$926,170	($473,816)	$452,354
c. Leasehold Improvements	SL	N/A	0	0	0
d. ADP Software	SL	5	279,997	(159,742)	120,255
e. Equipment	SL	5 or 10	$1,995,077	(1,262,697)	$732,380
f. Assets Under Capital Lease[1]	S/L	N/A	0	$0	0
g. Construction-in-Progress	N/A	N/A	100,322	N/A	100,322
h. Other	S/L		0	0	0
i. Total			$3,301,566	$(1,896,255)	$1,405,311

2. Other Information:

Legend:
Column (1) Above - Depreciation Methods SL = Straight Line
O = Other (explain)

1 See Note 13 part 5 for additional information on Capital Leases

The Air Force, as encouraged by the Federal Accounting Standards Advisory Board (FASAB), elected to implement the Statement of Federal Financial Accounting Standard (SFFAS) No. 11, "Amendments to Accounting for Property, Plant and Equipment – Definitional Changes, in FY 1998. As a result, the costs of National Defense PP&E are not reported. In addition, the Air Force implemented during FY 1998 the requirements of SFFAS No. 6 and removed from the Balance the costs of Heritage Assets and Stewardship Land.

In Fiscal Year 1999, real property reported by the Automated Civil Engineering System (ACES), personal property reported by the Air Force Equipment Management System (AFEMS), and Automated Data Processing (ADP) reported by the Information Processing Management System (IPMS), data has not been validated and reconciled to reported figures received from the field activities.

GPP&E is derived from logistics systems that were not designed to maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment." In addition, past audits results have led to uncertainties as to whether all General PP&E assets in the possession or control (existence) of the Department are properly and accurately recorded in the system (completeness). The Air Force contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and

completeness of the assets. As of the publication date of these statements, the contractor's assessment of the Air Force's personal property is ongoing.

Any Working Capital Funds Special Tools and Special Test Equipment in the possession and control of the Air Force are reported in the Air Force General Funds financial statements.

The Department of Defense (DoD) contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of these assets. As of the publication date of these statements, the contractor's assessment of the Department's General PP&E has not been finalized.

The federal government lacks standards on the methodology to estimate deferred maintenance information that must be reported based upon Federal Accounting Standards Advisory Board (FASAB) requirements. Until these requirements are defined at the government-wide level, the Air Force include in its financial statements deferred maintenance amounts reported for General Property, Plant, and Equipment (PP&E) real property that were reported during the budget process. In addition, the DoD has volunteered to chair a Chief Financial Officer (CFO) Council project tasked with developing and recommending government-wide methods for determining deferred maintenance estimates and reporting guidance.

Note 9.A. Assets Under Capital Lease:

Not applicable.

Note 10. Reserved for Future Use:

Not applicable.

Note 11. Debt:
($ in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
1 Public Debt:			
a Held for Government Accounts	$0	$0	$0
b Held by the Public	0	0	0

c Total Public Debt	$0	$0	$0
2. Agency Debt:			
a Debt to the Treasury	$0	$0	$0
b. Debt to the Federal Financing Bank	0	0	0
c. Debt to Other Federal Agencies	0	0	0
d. Held by the Public	0	0	0
e Total Agency Debt	0	0	0
3. Total Debt	0	0	0
4 Classification of Debt			
a Intragovernmental Debt			$0
b Governmental Debt			0
c. Total Debt			$0
5. Funding of Debt			
a Covered by Budgetary Resources			$0
b. Not Covered By Budgetary Resources			0
c Total Debt			$0

6. Other Information: None.

Note 12. Environmental Liabilities:

Not applicable.

Note 13. Other Liabilities:
($ in Thousands)

1. Other Liabilities Covered by Budgetary Resources:

	Current Liability	Noncurrent Liability	Total
a. Intragovermental			
(1) Advances from Others	$90,608	$0	$90,608
(2) Deferred Credits	0	0	0
(3) Deposit Funds and Suspense Account Liabilities	0		
(4) Liability for Borrowings to be Received	0	0	0
(5) Liability for Subsidy Related to	0	0	0

Undisbursed Loans			
(6) Resources Payable to Treasury	0	0	0
(7) Disbursing Officer Cash	0	0	0
(8) Nonenvironmental Disposal Liabilities	0	0	0
(9) Other Liabilities	2,725,638	0	2,725,638
Total	$2,816,246	0	$2,816,246
b. With the Public			
(1) Accrued Funded Payroll and Benefits	$204,493	0	$204,493
(2) Advances from Others	506	0	506
(3) Deferred Credits	0	0	0
(4) Deposit Funds and Suspense Accounts	0	0	0
(5) Temporary Early Retirement Authority	0	0	0
(6) Nonenvironmental Disposal			
(7) Other Liabilities	75,538	0	75,538
Total	$280,537	0	$280,537

2. Other Information:

Based upon the Air Force's interpretation of the Statement of Federal Financial Accounting Standard (SFFAS) No. 5, a non-environmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Air Force's auditors disagree with this interpretation of the standard. Their interpretation is that the non-environmental liability recognition should begin at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD continues to adhere to the explicit literal provisions of SFFAS No 5.

Other Liabilities Covered by Budgetary Resources

Intragovernmental Other Liabilities total $2.3B for DMAG, and consists of $890M in Progress Billings to Others-Federal and $1.4B in Other Accrued Liabilities. SMAG Other Liabilities total $299M and consists of $89M for contingent liabilities and $210M for property furnished by others. SMAG Other Liabilities $76M is for Other Accrued Liabilities-Nonfederal.

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

4. Other Information: None.

5. Leases:

Not applicable.

Note 14. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities: ($ in Thousands)

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
1. Pension and Health Benefits:				
a. Military Retirement Pensions	$0	0%	$0	$0
b. Military Retirement Health Benefits	0	0%	0	0
2. Insurance/Annuity Programs				
a._____	$0	0%	$0	$0
b._____	0	0%	0	0
Total	$0		$0	$0
3. Other				
a. Workmans Compensation (FECA)	$206,522	5.60%	$0	$206,522
b. Voluntary Separation Incentive Program	0	0%	0	
c. DoD Education Benefits Fund	0	0%	0	0
d.	0	0%	0	0
Total	$206,522		$0	$206,522
4. Total Lines A+B+C	$206,522		$0	$206,522

5. Other Information:

a. Actuarial Cost Method Used

The portion of the military retirement benefits applicable to the Air Force is reported on the financial statements of the Military Retirement Trust Fund. Health benefits are funded centrally at the DoD level. As such the portion of the health benefits liability that is applicable to the Air Force is reported only on the DoD agency-wide statements.

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 economic assumptions for 10-year Treasury notes and bonds.

b. Assumptions

Interest rate assumptions utilized for discounting were as follows:

1999	1998
5.50% in year 1, 5.50% in year 2, 5.55 in year 3, 5.60% in year 4, and thereafter	5.60% in year 1, and thereafter

c. Market value of investments in market-based and marketable securities

Not applicable.

Note 15. Net Position
($ in Thousands)

Unexpended Appropriations	
a. Unobligated,	
(1) Available	$63,971
(2) Unavailable	0
b. Undelivered Orders	0
c. Total Unexpended Appropriations	$63,971

2. Other Information:

Only Supply Management has unexpended appropriations.

Undelivered Orders in Line 1b would include both Undelivered Orders-Unpaid (Account 4801) and Undelivered Orders-Paid (Account 4802) for Direct Appropriated funds if issued..

NOTE 16. Footnote Disclosures Related to the Statement of Net Cost:
($ in Thousands)

Note 16.A. Suborganization Program Costs:
Air Force WCF
Supporting Schedules by Suborganization
For the year ended September 30, 1999
($ in Thousands)

	Suborganization A	
	Program A	Program B
Costs:		
Intragovernmental	0	0

Costs		
Public:	0	0
Transfer Payments	0	0
Administrative Costs	0	0
Other Costs	0	0
Total Program Costs	0	0

Suborganization B

	Program C	Program D	Program E
Costs:			
Intragovernmental Costs	0	0	0
Public:	0	0	0
Other Costs	0	0	0
Administrative Costs	0	0	0
Total Program costs	0	0	0
Less Earned Revenue	0	0	0
Net Program Cost	0	0	0

Suborganizaton C

	Program F	Program G	Other Programs
Costs:			
Intragovernmental Costs	0	0	0
Public:	0	0	0
Cost of Stewardship Land	0	0	0
Cost of National Defense PP&E	0	0	0
Other Costs	0	0	0
Total Program costs	0	0	0

Note 16.B. Cost of National Defense PP&E:

The cost of acquiring, constructing, improving, reconstructing, or renovating National Defense PP&E assets shall be recognized as a cost in the Statement of Net Cost in the period when it is incurred. These costs shall be disclosed in the footnotes, depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity (see SFFAS No. 6).

Note 16.C. Cost of Stewardship Assets:

The cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets and the cost of acquiring stewardship land and any costs to prepare stewardship land for its intended use shall be recognized as a cost in the Statement of Net Cost in the period when it is incurred. These costs shall be disclosed in the footnotes, depending on the materiality of the amounts and the need to distinguish such amounts from other costs relating to measures of outputs or outcomes of the reporting entity (see SFFAS No. 6).

Note 16.D. Stewardship Assets Transferred:

If the cost of heritage assets and stewardship land transferred from other federal entities or acquired through donation or devised is not known, then the receiving entity shall disclose the fair value. If the fair value is not known or reasonably estimable, information related to the type and quantity of assets received shall be disclosed (see SFFAS No. 6).

Note 16.E. Exchange Revenue:

Reporting entities that provide goods and services to the public or another government entity should disclose specific information related to their pricing policies and any expected losses under goods made to order. These disclosures are described in SFFAS No.7.

Note 16.F. Amounts for FMS Program Procurements From Contractors:

Not applicable.

Note 16.G. Benefit Program Expense:

Not applicable.

Note 16.H. Gross Cost and Earned Revenue by Budget Functional Classification:
($ in Thousands)

	Budget Function Code	Gross Cost	(Less Earned Revenue)	Net Cost
1. Department of Defense Military	051	$11,988,778	(11,460,921)	$527,857
2 Water Resources by US Army Corps of Engineers	301			
3. Pollution Control and Abatement by US Army	304			

Corps of Engineers				
4. Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602			
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702			
6. Total		$11,988,778	(11,460,921)	$527,857

Note 16.I. Imputed Expenses
($ in Thousands)

1. CSRS/FERS Retirement	$48,742
2. Health	64,675
3. Life Insurance	191
4. Total	$113,608

Note 16.J. Other Disclosures:

The amounts presented in this statement are based on obligations and not actual costs accrued throughout the year. While the Air Force Working Capital Funds generally record transactions on an accrual accounting basis as is required by the Statements of Federal Financial Accounting Standards (SFFAS) the systems do not capture actual costs. Therefore, information presented on the Statement of Net Cost is based on budgetary obligation, disbursements, and collection transactions, as well as non-financial feeder systems.

Note 17. Disclosures Related to the Statement of Changes in Net Position:
($ in Thousands)

A. Prior Period Adjustments-Increase (Decrease) to Net Position Beginning Balance:

1. Changes in Accounting Standards	$0
2. Errors and Omission in Prior Year Accounting Reports	(80,082)
3. Other	(17,109)
4. Total	(97,191)

B. Imputed Financing:

1. CRS/FERS Retirement	$48,742
2. Health	64,676
3. Life Insurance	$191
4. Total	$113,609

C. Other Disclosures to the Statement of Changes in Net Position:

The following applies to Prior Period Adjustments (PPA) Lines 2 and 3:

- Base Support closure and transfer out to Supply Management Activity Group (SMAG) in the amount of ($591)

- Transfer out of USTC's FY 99 beginning of period net position from Air Force Working Capital Fund to Other Defense Organizations. The beginning of period net position is reflected in the Other Defense Organizations financial statements as a Transfer-In.

- Depot Maintenance Activity Group (DMAG) also includes the transfer of assets and equity from the Newark (residual) to the remaining Air Logistical Centers. DMAG also prepared adjustments due to the improper closing of revenue and expenses by field activities during FY 98. Subsequently the beginning of period balances for FY 99 were incorrect. The error was identified late in FY 99 and therefore was corrected through PPA in the amount of ($23,704).

- After Air Force Transportation was removed October 1, 1994 as an activity, cash collections and disbursements have been recorded as prior period adjustments.

- SMAG adjustments are for the Material Support Division processing FY 97 and 98 Foreign Military Sales. And an adjustment to correct a previous adjustment made in error during FY 98 in the amount of $122,959.

- ISAG adjustments (Other) represent cash collections associated with periods prior to the Industrial Fund Accounting System (IFAS). The remaining amount represents a correction to the accounts receivable beginning balance in the amount of $1,081.

For Imputed Financing, costs for FY 99 in the amount of $113.6M are included in the Statement of Changes in Net Position, line 2D.

NOTE 18. Disclosures Related to the Statement of Budgetary Resources:
($ in Thousands)

1. Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$5,168,455
2. Available Borrowing and Contract Authority at the End of Period	1,496,771
3. Other Information	

Suspense/Budget Clearing Accounts: All Air Force suspense/budget clearing accounts are reported with General Funds.

OPAC Differences. The Air Force went to a new method for processing OPAC disbursements and collections. If Air Force can not match a disbursing office to the OPAC transaction to an accounting transaction, the uncleared amount will be posted to suspense account F3885. When the transaction reaches the departmental-level accounting office, if the transaction can be identified to a proper appropriation the suspense account is cleared and the proper appropriation is charged or credited. Those transactions that cannot be identified to a valid appropriation will remain in suspense account F3885. Transactions not reflected in a valid appropriation will affect either disbursements or collections and the unexpended balance of the reporting entity.

Undelivered Orders in Line 1 includes Undelivered Orders-Unpaid (Account 4801) for both Direct and Reimbursable funds. Line 1 does not include Undelivered Orders-Paid (Account 4802).

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Air Force budgetary accounting is not transaction driven, therefore propriety accounts are used to develop the Report on Budget Execution, SF133, for reporting budgetary data. The prior fiscal year's SF133 budgetary account totals were derived from propriety accounts and used to post current fiscal year beginning balances to the trial balance, and the current fiscal year's SF133 account totals were used to post changes within the fiscal year. This allowed the CFO system to produce the Statement of Budgetary Resources by populating each line from the budgetary accounts in the trial balance.

The Air Force Depot Maintenance, September 30, 1998 SF 133 Report reflected negative budgetary resources of $1.1 billion. This figure has been negative since FY 1995 and has grown larger by more than $200 million a year the last two years. This is of particular concern because negative budgetary resources indicate an activity may have exceeded its authority to spend money. Program Budget Decision (PBD) 426, "Costs of Operations and Customer Prices for the Defense Working Capital Funds and Other Revolving Funds" dated January 5, 1999, directed the Air Force to review budgetary resources and develop a plan for returning budgetary resources to a positive number. A Budgetary Resources Working Group was created and charged with implementing that plan.

The group determined there are internal control and business process problems as well as bad data from feeder systems that overstate DMAG obligations. Invalid obligations totaling at least $800 million have been removed from DMAG accounts in FY 1999. The result was a reduction of the $1.1 billion to a negative $14 million. The group is continuing to work to bring the budgetary resources to a sustained positive position.

NOTE 19. Disclosures Related to the Statement of Financing:

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 "Adjustments" on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Transfers In and Out of property for General and Working Capital Funds; and transfers of collections and disbursements to the Component level for applicable Defense Working Capital Funds which are reflected on the Statement of Changes in Net Position Lines 2e and 2f, are not included in Line 1e on the Statement of Financing.

Intra-entity transactions have not been eliminated because the accompanying statements of financing are presented as combined or combining statements.

Line 2C was used to balance the statement.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This causes a difference in net cost between the statement of net cost and the statement of financing. Statement of financing line 2B, costs capitalized on the balance sheet has been adjusted to make the two statements match. Differences between budgetary and proprietary data for Department of the Defense General Funds is a previously identified deficiency. During FY 2000 DoD will develop alternative procedures to better prepare the statement of financing for FY 2000 CFOA reporting.

Note 20. Footnote Disclosures Related to the Statements of Custodial Activity:

Not applicable.

Note 21A. Other Disclosures; Leases:

Not applicable.

Note 21B. Other Disclosures:

Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements (In Thousands):

WCF Funds		Sept 1998	Sept 1999	Change	% Change
Unmatched Disbursements*		$13,768	$6,311	($7,457)	(54%)
Negative Unliquidated Obligations**	73,864	39,288	(34,576)	(47%)	
Aged In-Transit Disbursements***	118,253	22,173	(96,080)	(81%)	
Totals		$205,885	$67,772	(138,113)	(67%)

* Net totals of contract payment notice rejects, Intra-service, and Recons. CPN rejects total $6.9 million. MAFR rejects total was less than a thousand. Air to Air rejects $1.2 million. Cross Disbursing rejects $.8 million. Recons difference ($2.6) million. The net change is coming from CPN rejects decreasing $11.9M, Air to Air decreasing $.7M, Cross Disbursing decreasing $1.9M, MAFR rejects decreasing $13.4M, and Recons increasing $31.9M. The increase in Recons is the results of clearing negative Recons.

** Unobligated NULOs, including those awaiting correction form paying station. At the end of FY 99, obligated and unobligated NULOs totaling $47 million were reported at accounting classification reference number (ACRN) level (gross) compared to $82 million in Sep 98. Of the $47 million, $12 million were 0 to 120 days old, $5 million were 121 to 180 days old, and $30 million were over 180 days old.

*** Treasury Variance is no longer a category of Intransits per DFAS-HQ instruction. Treasury Variance is still a part of Undistributed.

DFAS-HQ performance contract set a goal to reduce Problem Disbursements and Intransits by 75 percent by September 2000 from September 1998 base line. DFAS-DE is well on its way of achieving this goal.

These figures do not include the Military Sealift Command and Military Traffic Management Command pieces of the U.S. Transportation Command.

Accounts Payable for Transportation is abnormal because of Undistributed Disbursements posted to Accounts Payable. Total Liabilities are abnormal because the amount posted as Undistributed Disbursements exceeded liabilities:

Schedule, Part A DoD Intragovernmenal Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury:	Accounts Receivable:	Accounts Receivable:	Investments:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11		86,562,202	86,562	
Department of Agriculture	12		1,683	2	
Department of Commerce	13		4,067,105	4,067	
Department of the Interior	14		4,091,006	4,091	
Department of Justice	15		135,220	135	
Department of Labor	16		4,780	5	
Department of the Navy, General Funds (GF)	17		37,015,736	37,016	
United States Postal Service	18				
Department of State	19		5,331,852	5,332	
Department of the Treasury	20	270,183	4,066,330	4,066	
Department of the Army, GF	21		4,072,627	4,073	
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31				

Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36		1,683	2	
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47		495,665,690	495,666	
Independent Agencies**	48				
National Science Foundation	49				
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57		362,059,840	362,060	
Federal Emergency Management Agency	58				
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68		1,683	2	
Department of Transportation	69		5,198,627	5,199	
Oversees Private Investment Corporation	71				
Agency for International Development	72		1,683	2	
Small Business Administration	73				
American Battle Monuments Commission	74				
Department of Health and Human Services	75		1,503,946	1,504	

Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80		7,805,147	7,805	
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86		1,683	2	
National Archives and Records Administration	88				
Department of Energy	89		4,074,981	4,075	
Selective Service System	90				
Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95				
U.S. Army Corps of Engineers (Civil Works)	96				
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001		70,970	71	
Department of the Navy, WCF	97-4930-002		437,825	438	
Department of the Air Force, WCF	97-4930-003		143,582,126	143,582	
Other Defense Organizations, GF	97		1,773,808	1,774	
Other Defense Organizations, WCF	97-4930		45,198,354	45,198	
Unidentifiable Federal Agency Entity	00				
Total		$270,183	$1,212,726,586	$1,212,727	$0

Schedule, Part B DoD Intragovernmenal Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Accounts Payable:	Debts/Borrowings From Other Agencies:	Other:
Library of Congress	03			
Government Printing Office	04			
General Printing Office	05			
Congressional Budget Office	08			
Other Legislative Branch Agencies	09			
The Judiciary	10			
Executive Office of the President, Defense Security Assistance Agency	11			86,239
Department of Agriculture	12			
Department of Commerce	13			
Department of the Interior	14			
Department of Justice	15			
Department of Labor	16			1,534,341
Department of the Navy, General Funds (GF)	17	11,272		
United States Postal Service	18			
Department of State	19			
Department of the Treasury	20			1,101,122
Department of the Army, GF	21	1,600		
Resolution Trust Corporation	22			
United States Tax Court	23			
Office of Personnel Management	24			2,696
National Credit Union Administration	25			
Federal Retirement Thrift Investment Board	26			
Federal Communications Commission	27			
Social Security Administration	28			
Federal Trade Commission	29			

Nuclear Regulatory Commission	31			
Smithsonian Institution	33			
International Trade Commission	34			
Department of Veterans Affairs	36			
Merit Systems Protection Board	41			
Pennsylvania Avenue Development Corporation	42			
U.S. Equal Employment Opportunity Commission	45			
Appalachian Regional Commission	46			
General Service Administration	47			1,240
Independent Agencies**	48			
National Science Foundation	49			
Securities and Exchange Commission	50			
Federal Deposit Insurance Group	51			
Federal Labor Relations Authority	54			
Advisory Commission on Intergovernmental Relations	55			
Central Intelligence Agency	56			
Department of the Air Force, GF	57	28,768		
Federal Emergency Management Agency	58			
National Foundation on the Arts and Humanities	59			
Railroad Retirement Board	60			
Consumer Product Safety Commission	61			
Office of Special Counsel	62			
National Labor Relations Board	63			
Tennessee Valley Authority	64			
Federal Maritime Commission	65			
United States Information Agency	67			
Environmental Protection Agency	68			
Department of Transportation	69			
Oversees Private Investment Corporation	71			
Agency for International Development	72			
Small Business Administration	73			

American Battle Monuments Commission	74			
Department of Health and Human Services	75			
Independent Agencies**	76			
Farm Credit	78			
National Aeronautics and Space Administration	80			
Export-Import Bank of the United States	83			
Armed Forces Retirement Home	84			
Department of Housing and Urban Development	86			
National Archives and Records Administration	88			
Department of Energy	89			
Selective Service System	90			
Department of Education	91			
Federal Mediation and Conciliation Services	93			
Arms Control and Disarmament Agency	94			
Independent Agencies**	95			
U.S. Army Corps of Engineers (Civil Works)	96			
Military Retirement Trust Fund	97-8097			
Department of the Army, WCF	97-4930-001	18,959		
Department of the Navy, WCF	97-4930-002	3,329		
Department of the Air Force, WCF	97-4930-003	143,582		
Other Defense Organizations, GF	97			
Other Defense Organizations, WCF	97-4930	250,394		
Unidentifiable Federal Agency Entity	00			
Total		$457,904	$0	$2,725,638

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:	Non-exchange Revenue:	Other:	Full Cost to Generate Revenue:
Library of Congress	03				
Government Printing Office	04				
General Printing Office	05				
Congressional Budget Office	08				
Other Legislative Branch Agencies	09				
The Judiciary	10				
Executive Office of the President, Defense Security Assistance Agency	11	105,810			
Department of Agriculture	12				
Department of Commerce	13	433,856			
Department of the Interior	14	433,849			
Department of Justice	15				
Department of Labor	16				
Department of the Navy, General Funds (GF)	17	302,180			
United States Postal Service	18				
Department of State	19	438,678			
Department of the Treasury	20	97,721			
Department of the Army, GF	21	452,674			
Resolution Trust Corporation	22				
United States Tax Court	23				
Office of Personnel Management	24				
National Credit Union Administration	25				
Federal Retirement Thrift Investment Board	26				
Federal Communications Commission	27				
Social Security Administration	28				
Federal Trade Commission	29				
Nuclear Regulatory Commission	31				

Smithsonian Institution	33				
International Trade Commission	34				
Department of Veterans Affairs	36				
Merit Systems Protection Board	41				
Pennsylvania Avenue Development Corporation	42				
U.S. Equal Employment Opportunity Commission	45				
Appalachian Regional Commission	46				
General Service Administration	47	30			
Independent Agencies**	48				
National Science Foundation	49				
Securities and Exchange Commission	50				
Federal Deposit Insurance Group	51				
Federal Labor Relations Authority	54				
Advisory Commission on Intergovernmental Relations	55				
Central Intelligence Agency	56				
Department of the Air Force, GF	57	4,749,388		3,537,613	
Federal Emergency Management Agency	58				
National Foundation on the Arts and Humanities	59				
Railroad Retirement Board	60				
Consumer Product Safety Commission	61				
Office of Special Counsel	62				
National Labor Relations Board	63				
Tennessee Valley Authority	64				
Federal Maritime Commission	65				
United States Information Agency	67				
Environmental Protection Agency	68				
Department of Transportation	69	434,245			
Oversees Private Investment Corporation	71				
Agency for International Development	72				
Small Business Administration	73				
American Battle Monuments Commission	74				

Department of Health and Human Services	75				
Independent Agencies**	76				
Farm Credit	78				
National Aeronautics and Space Administration	80	6,016			
Export-Import Bank of the United States	83				
Armed Forces Retirement Home	84				
Department of Housing and Urban Development	86				
National Archives and Records Administration	88				
Department of Energy	89				
Selective Service System	90				
and Notes Department of Education	91				
Federal Mediation and Conciliation Services	93				
Arms Control and Disarmament Agency	94				
Independent Agencies**	95				
U.S. Army Corps of Engineers (Civil Works)	96				
Military Retirement Trust Fund	97-8097				
Department of the Army, WCF	97-4930-001	557			
Department of the Navy, WCF	97-4930-002	2,007			
Department of the Air Force, WCF	97-4930-003	4,208,554			
Other Defense Organizations, GF	97	14,887			
Other Defense Organizations, WCF	97-4930	250,939			
Unidentifiable Federal Agency Entity	00				
Total		$11,931,392	$0	$3,537,613	$15,469,005

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