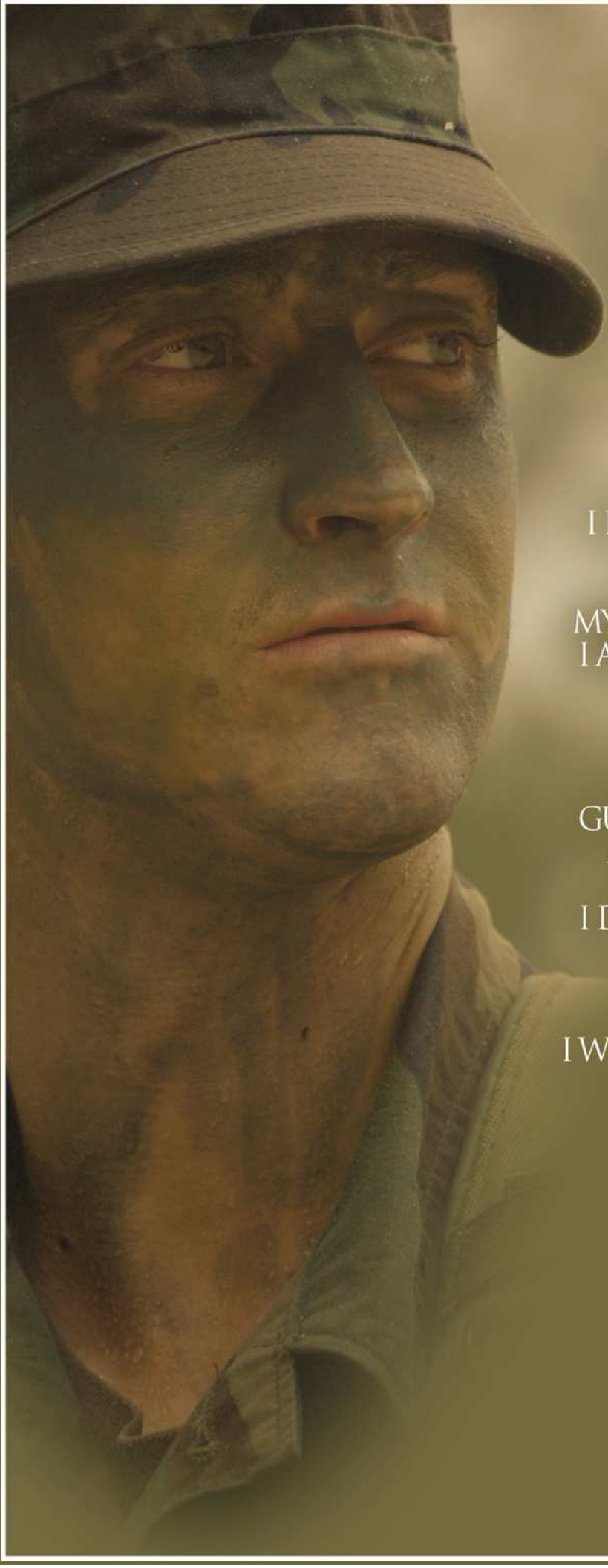
United States Air Force
Agency Financial Report
2013



THE AIRMAN'S CREED

I AM AN AMERICAN AIRMAN.
I AM A WARRIOR.
I HAVE ANSWERED MY NATION'S CALL.

I AM AN AMERICAN AIRMAN.
MY MISSION IS TO FLY, FIGHT, AND WIN.
I AM FAITHFUL TO A PROUD HERITAGE,
A TRADITION OF HONOR,
AND A LEGACY OF VALOR.

I AM AN AMERICAN AIRMAN,
GUARDIAN OF FREEDOM AND JUSTICE,
MY NATION'S SWORD AND SHIELD,
ITS SENTRY AND AVENGER.
I DEFEND MY COUNTRY WITH MY LIFE.

I AM AN AMERICAN AIRMAN:
WINGMAN, LEADER, WARRIOR.
I WILL NEVER LEAVE AN AIRMAN BEHIND,
I WILL NEVER FALTER,

AND I WILL NOT FAIL.

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November 2013

Message from the Acting Secretary of the Air Force

Despite operating in a difficult fiscal environment, the Air Force continued to execute at a high operations tempo in Fiscal Year 2013 (FY 13). More than 35,000 Airmen were deployed to contingencies around the globe. Approximately 57,000 Airmen were stationed overseas and more than 132,000 Airmen supported combatant commander requirements in the continental United States. Our Airmen have met the demands placed upon them in a fiscally responsible manner.

Sequestration provisions of the Budget Control Act of FY 2011 reduced the Air Force budget by about $10 billion in FY 13. Approximately 150,000 of the Air Force's 182,000 civilian personnel were furloughed without pay for six days. We stood down 33 squadrons and reduced flying hour training and aircraft maintenance by 18 percent. All non-emergency Facility Sustainment, Restoration and Modernization have been deferred. We realize that the federal government must reduce its budget deficits and the Air Force is prepared to work with Congress to implement a sensible budget that meets both national security needs and is fiscally prudent.

I am pleased to report that the Air Force continues to make significant strides in safeguarding our nuclear enterprise. Enhanced standards for the management of nuclear weapons have been implemented. The majority of missile crew members who were decertified from performing alert duties at missile silos recently met standards for recertification to fully perform their duties. We will continue to rigorously train the Airmen who manage nuclear weapons because error-free operations are the required standard for the nuclear enterprise.

Our Airmen are the cornerstone to executing the Air Force mission. Therefore, we have a zero tolerance for sexual assault and continue to take measures to prevent sexual assault and to prosecute offenders. The Sexual Assault Prevention and Response (SAPR) Office of the Vice Chief of Staff was created in FY 13 to provide a single point of accountability and oversight for sexual assault policy matters. The SAPR office includes health professionals and special investigators who work to prevent rape and sexual assault and treat sexual assault victims.

We have established ambitious goals for FY 14 and we are fully committed to asserting our Schedule of Budgetary Activity as audit ready by September 30, 2014. Civilian Pay and Funds Distribution to Base are under examination by an independent public accountant, and we are taking an enterprise-wide approach to completing our remaining audit readiness tasks. We are committed to supporting the requirement of achieving audit readiness of our financial statements by September 30, 2017. We are also participating in the Department of Defense-wide effort to streamline the acquisition process and focus attention and resources on the Asia Pacific region. As we look forward to the future with confidence, our core values continue to be *Integrity First*, *Service Before Self*, and *Excellence In All We Do*.

Eric K. Fanning

November 2013

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

I am pleased to present the Annual Financial Statement for Fiscal Year 2013. This report describes the Air Force's financial position and performance results during a year of fiscal constraint. Due to sequestration and budget uncertainties, sound financial management is needed now more than ever to provide our Airmen the resources they need to execute the Air Force mission.

The Air Force continues to make progress towards auditable financial statements. An Air Force team is working with Air Force senior leadership to compile a comprehensive analysis of audit readiness risks and recommended solutions to barriers. The efforts we plan to accomplish in Fiscal Year 2014 will be critical to meeting the plan of asserting audit readiness of our Schedule of Budgetary Activity (SBA) by September 30, 2014. The results of the SBA examination will put us on the path of achieving full audit readiness by September 30, 2017. Civilian Payroll was asserted as audit ready in 2013 and Funds Distribution to Base was asserted as audit ready in September 2012. An examination by an independent public accounting firm began in August 2013 to validate the audit readiness of both Civilian Payroll and Funds Distribution to Base. They are scheduled to issue their opinion in February 2014. In January 2013, the Department of Defense Inspector General issued a clean examination opinion for the existence and completeness of uninstalled missile motors and a qualified opinion for the existence and completeness of spare engines.

The Air Force continues to implement the Defense Enterprise Accounting and Management System (DEAMS). DEAMS will replace a legacy system first implemented in 1968. In addition to helping the Air Force become audit ready, DEAMS will help resolve material weaknesses, improve the timeliness and accuracy of financial management information, support consistent financial reporting to DoD, and enable business process re-engineering. In FY 2013, DEAMS was the system of record at two Air Force bases and USTRANSCOM. It was deployed at four more bases on October 1, 2013, and will be deployed throughout the Air Force in a series of releases in FY 2014-FY 2017.

Air Force financial managers are working every day to maximize the combat effectiveness achieved with each dollar of taxpayer resources through continuous improvement in resource allocation, analysis, financial services, and execution. We serve as the trusted advisor to decision makers, providing sound financial advice to ensure that Air Force missions are successfully executed in a fiscally responsible manner.

Jamie M. Morin

Air Force Vision

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

Air Force Mission

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

Management Discussion and Analysis

Air Force Heritage

U.S. Air Force C-47s at Tempelhof Airport in Berlin

This year marks the 65th anniversary of the beginning of the Berlin Airlift. Following World War II, Germany was divided into four sectors. Although Berlin was located in the Soviet controlled eastern sector of Germany, the city was also divided into four sections. The U.S., Great Britain, and France occupied the western portion of Berlin and the Soviets occupied the eastern portion. In June 1948, the Soviet Union blocked the Allies' railway, road, and canal access to those sectors of Berlin under Soviet control in an attempt to gain control of the entire city.

Flying C-47 Skytrains and C-54 Skymasters, the U.S. Air Force alone airlifted 1.8 million tons of supplies during nearly 300,000 flights, logging 92 million miles. The airlift lasted until the end of September 1949, although the Soviet government lifted the blockade on May 12, 1949. The Berlin airlift remains the largest humanitarian mission in the history of the U.S. Air Force.

1st Lt. (later Colonel) Gail Halvorsen used miniature parachutes to drop candy and gum to German children as he flew into Tempelhof airport. Col. Halvorsen became known as the candy bomber.

The Berlin Airlift started the Air Force's tradition of providing humanitarian assistance during times of natural disaster and political unrest.

- In December 2004, the Air Force dispatched C-5 Galaxys, C-17 Globemasters III, and C-130 Hercules with humanitarian supplies to South Asia after the region is devastated by a tsunami
- In January 2010 an Air Force Expeditionary Medical Support Team is dispatched to Haiti after an earthquake kills more than 200,000 people
- In October 2012, a 12-base effort was initiated within 72 hours of Superstorm Sandy's landfall. Active and Reserve airlift crews from Wright-Patterson Air Force Base (AFB), McChord AFB, and Travis AFB

converged on March Air Reserve Base and worked together to move 356 utility workers from across California and 134 utility vehicles with their equipment, totaling 2.4 million pounds of cargo, in less than 96 hours to places like Stewart Air National Guard Base at John F. Kennedy International Airport.

The Air Force will continue to serve as a force for good; using our resources to not only execute our military mission, but to also serve mankind.

Airmen at Joint Base Andrews, MD load equipment bound for Japan to aid earthquake victims.

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

Air and Space Superiority: Air superiority is the ability to control the air so that friendly military forces are not subject to attack from the air. Air superiority has been and remains a vital component for conducting successful military operations. Not since April 15, 1953 has an enemy aircraft killed a service member in the American ground forces.

In the six major U.S. combat operations of the last two decades, the Air Force's ability to maintain air superiority has been crucial to the successful outcomes of the operations. During Operations Odyssey Dawn and Unified Protector in Libya, U.S. Airmen flew 50 percent of allied airborne reconnaissance missions and 40 percent of allied strike missions, totaling to 1,800 total strikes in support of the United Nations-sanctioned no-fly zone.

Space superiority is critical to U.S. national defense. U.S. and allied forces depend on Air Force space operations to perform their missions every day. For example, the Global Positioning System (GPS) enables precision guided munitions employment by all services minimizing collateral damage. Air Force military satellite communications systems, including Advanced Extremely High Frequency and Wideband Global SATCOM satellites, provide wideband and protected communications to deployed forces around the world. This provides the command and control needed by joint force commanders around the world.

Intelligence, Surveillance, and Reconnaissance (ISR): The Air Force ISR force is networked to provide both intelligence and immediate fighter support. Sensors operating in air, space, and cyberspace interface with global communication architectures, and a network of regionally aligned centers enable U.S. forces to conduct exploitation and analytical efforts in support of combatant commander requirements.

In 2012, U.S. Airmen conducted intelligence preparation of the operational environment, helped determine combat plans for 33 named operations, assisted in the removal of 700 enemy combatants, and provided critical adversary awareness and targeting intelligence to U.S. and coalition forces in over 250 troops-in-contact engagements. ISR Airmen enhanced battlespace awareness through 540,000 hours of sustained surveillance of tactical maneuver forces and identified over 100 weapons caches that would have otherwise targeted American and Allied forces.

Rapid Global Mobility: Air mobility forces provide swift deployment and sustainment capability by delivering essential personnel and equipment for critical missions around the world. The Air Force mobility fleet averages one take-off or landing every

two minutes, every day of the year. During 2012, Airmen flew 38,000 airlift missions. Over the course of 1,300 missions, the Air Force dropped 40 million pounds of sustainment to coalition forces on the ground in Afghanistan, 86 percent more than during the entire Korean War. The ability to airdrop personnel, equipment, and humanitarian relief, particularly in contested areas, remains crucial to our nation's defense.

Mobility forces also provide in-flight refueling-a key component of projecting power at intercontinental distances. Over the past 50 years, the Air Force has provided unparalleled air refueling capacity in defense of our nation. Airmen flew 16,000 tanker missions last year, and since September 11, 2001, the tanker fleet has delivered over 2.36 billion gallons to joint and coalition air forces.

The Air Force is the only Service with a dedicated force organized to recover personnel. With a combination of advanced HH-60-G Pave Hawk helicopters and specially trained Airmen, the Air Force has a unique ability to recover wounded servicemembers and civilians in environments considered too hostile for standard medical evacuation units. In addition to overseas contingency deployments, these Airmen also serve as first responders during disaster relief and humanitarian assistance operations. Since 2001, Air Force combat rescue forces have saved over 7,000 lives and in 2012 alone, they flew 4,500 missions that saved 1,128 American and coalition lives. In 2012, the Air Force airlifted 12,000 patients; since 2003, we have transported 195,000 patients.

Global Strike: Nuclear deterrent forces and precision strike force comprise the Air Force's global strike capability. Air Force B-2 and B-52 bombers and land based ICBM crews are two vital components of the U.S. nuclear triad (submarine launched ICBMs are the third component). Air Force nuclear command, control, and communications system provide the National Command Authority with the capability to employ all U.S. strategic forces. As long as nuclear weapons exist, the Air Force is committed to meeting the President's direction to maintain, safe, secure and effective nuclear deterrence capabilities.

In addition to nuclear deterrent forces, The Air Force has significant conventional precision strike capabilities. Currently, precision strike forces and armed ISR support joint and coalition ground forces in Afghanistan and Africa. In 2012, the Air Force flew and supported over 28,000 close air support sorties in Afghanistan.

Command and Control: The Air Force provides communication and information networks so that joint U.S. forces can operate globally at a high tempo and at a high level of intensity. In 2012, command and control operations included the planning, execution, and control of over 60,000 combat sorties in support of Operation Enduring Freedom in Afghanistan; over 12,000 sorties in support of Operation Noble Eagle, U.S. air defense operation; and over 9,000 global aeromedical missions.

In order to execute our mission, the Air Force must effectively operate in cyberspace. Operations in cyberspace can increase military effectiveness and efficiency. The United States must deal with the threat of cyber attacks on critical infrastructure. The cost of prosecuting cyber attack is low and anonymity is high, which gives our enemies many opportunities to disrupt highly interconnected systems. In FY 2013, the Secretary of Defense introduced a force structure plan for cyber operations. This new model will increase Air Force cyber force personnel for combatant command and Air Force missions. For example, the Air Force has increased funding to $3.6 million in FY 14 for cyber hunter teams to identify and pursue cyberspace threats to the Air Force network.

Air Force in Action--FY 2013

The U.S. Air Force plays a vital role in national defense and foreign policy. During FY 2013, more than 35,000 airmen were deployed to contingencies around the globe. Approximately 57,000 airmen were stationed overseas and more than 132,000 airmen supported Combatant Commander requirements from their home station. Although fiscal constraints have created the smallest Air Force in history, the U.S. Air Force was able to quickly respond to mission demands throughout the world.

Sequestration, a component of the 2011 Budget Control Act, mandated $1.2 billion of federal budget cuts over ten years. The Air Force enacted total budget cuts of approximately $10 billion in FY 2013 requiring:

- The majority of the Air Force's 184,000 civilian employees to be furloughed for six days without pay
- A reduction of about 203,000 flying hours. Some flying units were required to reduce their training time to protect the readiness of units scheduled to deploy
- The cancellation of all aviation support to public events and the standing down of the Thunderbirds aerial demonstration team
- The reduction of the Weapons Systems Sustainment budget of approximately 18 percent
- The deferment of all non-emergency Facility, Sustainment, Restoration, and Modernization

The Sexual Assault Prevention and Response Office (SAPR) of the Vice Chief of Staff was created in FY 13 to provide a single point of accountability and oversight for sexual assault policy matters. The SAPR is comprised of research analysts, epidemiologists, mental health professionals, and special investigators who work to prevent rape and sexual assault and treat sexual assault victims. The Air Force looks upon sexual assault without the least degree of tolerance and will continue to take measures to prevent sexual assault and prosecute offenders.

The Air Force continues to realize financial efficiencies and savings by reducing our energy consumption. As the largest user of energy in the federal government, we must promote sustainable energy consumption and the judicious use of non-sustainable energy. The U.S. Environmental Protection Agency's Top 50 list of Green Power Partners, released in April 2013, ranks the Air Force number one in the DoD and number two in the federal government for its purchase and on site production of green power. The Air Force more than doubled its number of renewable energy projects in the past two years. Since 2006, the Air Force has reduced its fuel consumption by 12 percent, exceeding a 10 percent reduction goal three years ahead of schedule. These energy initiatives not only save money, they also protect the environment.

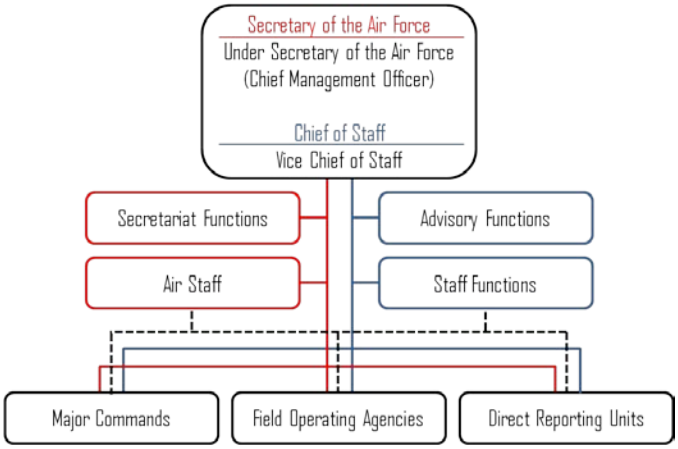
Getting the maximum combat capability out of each taxpayer dollar is the core mission for the Air Force Financial Management staff. To that end, the Air Force Vice Chief of Staff launched the Every Dollar Counts campaign. The campaign has two parts: First, fund managers were asked to identify funds that could be allocated to higher priority needs by finding programs that are no longer viable and could be eliminated or restructured. The second part was a month-long, Air Force-wide call for innovative ideas that helped the Air Force realize budget efficiencies.

Throughout the month of May 2013, Airmen submitted 11,000 cost-reducing ideas; 38 percent addressed personnel policy, 23 percent involved logistics and installation support, and 11 percent recommended changes to information technology. In one cost savings effort, Airmen at Homestead Air Reserve Base, FL are sharing training facilities and are conducting joint training exercises between the base fire department and Miami-Dade, Broward, Charlotte and Lee county fire departments. These joint exercises save approximately $500,000 a year. At Altus AFB, Oklahoma, mandatory items issued to deploying Airmen cost $2,892 per Airman. Many of these deployment items are now returned to the unit deployment manager and reissued to others who are deploying. The cost of issuing deployment items has been reduced to $1,498 per Airman. Although the official month-long program has ended, our Airmen continue to find ways to perform their missions more cost effectively.

Air Force Structure

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

Figure 1: Air Force Organization Chart



Major Command Structure

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

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

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

Air Combat Command (ACC)

Mission: Air Combat Command is the primary force provider of combat airpower to America's warfighting commands.

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

As a force provider, ACC organizes, trains, equips and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. ACC numbered air forces provide the air component to the Central, Southern and Northern Combatant Commands. ACC also augments forces to the European, Pacific, and Strategic Combatant Commands.

Command Personnel: 137,000

2 F-15C Eagles from the 48th Fighter Wing fly over Norway

Air Education and Training Command (AETC)

Mission: Develop America's Airmen today……for tomorrow.

Responsibilities: With a vision to deliver unrivaled air, space and cyberspace education and training, the command recruits Airmen and provides basic military training, initial and advanced technical training, flying training, medical training, space and missile training, cyber training, and professional military and degree-granting professional education. The command also conducts joint, readiness and Air Force security assistance training. AETC's role makes it the first command to touch the life of nearly every Airman.

Command Personnel: 74,200

Air Force Global Strike Command (AFGSC)

Mission: Develop and provide combat-ready forces for nuclear deterrence and global strike operations

... *Safe, Secure, Effective*, to support the President of the United States and combatant commanders.

Responsibilities: Organize, train and equip the Air Force's three intercontinental ballistic missile wings, two B-52 Stratofortress wings and the single B-2 Spirit wing. The three weapons systems make up two-thirds of the nation's strategic nuclear triad by providing the land-based and airborne nuclear deterrent forces.

Command Personnel: 25,543

Air Force Materiel Command (AFMC)
Mission: Deliver technology, acquisition, test, sustainment and expeditionary capabilities to the warfighter.

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

Command Personnel: 79,607

Air Force Reserve Command (AFRC)
Mission: To provide combat ready forces to fly, fight, and win in air, space, and cyberspace.

Responsibilities: The AFRC augments the active component. The AFRC is extremely cost effective and retains valuable military expertise and mission continuity on a ready-now, but called-up as needed basis. Reserve units are staffed and trained to meet the same training standards and readiness levels as the active component forces, and are supplied with the same equipment on an equal priority. Because Reservists are community neighbors and civilian employees in society, many Americans who interact with them have a better understanding of the Armed Forces and military service.

Command Personnel: 70,880

Air Force Space Command (AFSPC)
Mission: Provide resilient and cost-effective space and cyberspace capabilities for the joint force and the nation.

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

AFSPC operates sensors that provide direct attack warning and assessment to U.S. Strategic Command and North American Aerospace Defense Command. The command develops, acquires, fields, operates and sustains space systems and fields and sustains cyber systems.

Command Personnel: 28,664

An Alliance Delta IV heavy rocket launches from Vandenberg AFB

Air Mobility Command (AMC)

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

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

Command Personnel: 132,708

7 C-17s, 11 KC-10s, and 4 C-5Bs line up at Travis AFB, CA

Air National Guard (ANG)

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

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

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

Responsibilities: The Air National Guard provides tactical airlift, air refueling tankers, general purpose fighters, rescue and recovery capabilities, tactical air support, weather flights, strategic airlift, special operations capabilities and aeromedical evacuation units.

Command Personnel: 105,700

Pacific Air Forces (PACAF)

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

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

Command Personnel: 45,000

U.S. Air Forces in Europe (USAFE)

Mission: As the air component for both U.S. European Command (USEUCOM), and U.S. Africa Command (USAFRICOM), USAFE directs air operations in a theater spanning three continents, covering more than 19 million square miles, containing 105 independent states, and possessing more than a quarter of the world's population and more than a quarter of the world's Gross Domestic Product.

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

Command Personnel: 24,586

Air Force Special Operations Command (AFSOC)
Mission: America's specialized air power — a step ahead in a changing world, delivering special operations power anytime, anywhere.

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

The command's core missions include battlefield air operations; agile combat support; aviation foreign internal defense; information operations; precision aerospace fires; psychological operations; specialized air mobility; specialized refueling; and intelligence, surveillance and reconnaissance.

Command Personnel: 18,000

CV-22 Osprey, Hurlbert Field, Fla. (Search & Rescue)

Direct Reporting Unit (DRU)
A DRU is a subdivision of the Air Force that is directly subordinate to Headquarters Air Force, separate from any MAJCOM or FOA because of a unique mission, legal requirements, or other factors. DRUs have the same administrative and organizational responsibilities as MAJCOMs. The DRUs are the Air Force Academy, Air Force District of Washington, and Air Force Operational Test and Evaluation Center.

Civil Air Patrol (CAP)
Mission: Support America's communities with emergency response, diverse aviation and ground service, youth development and promotion of air and space power.

Responsibilities: Civil Air Patrol provides operational capabilities in support of aerial and ground search and rescue disaster relief and counterdrug and homeland security missions. It conducts 90 percent of all inland search-and-rescue missions tasked by the Air Force Rescue Coordination Center. It builds strong citizens for the future by providing leadership training, technical education, scholarships and career education to young men and women, ages 12 to 21, in the CAP cadet program. It promotes and supports aerospace education, both for its members and the general public, and conducts a national school enrichment program from K-12.

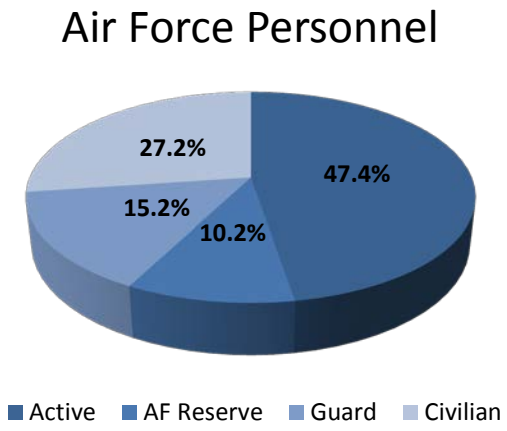
Personnel: 60,760

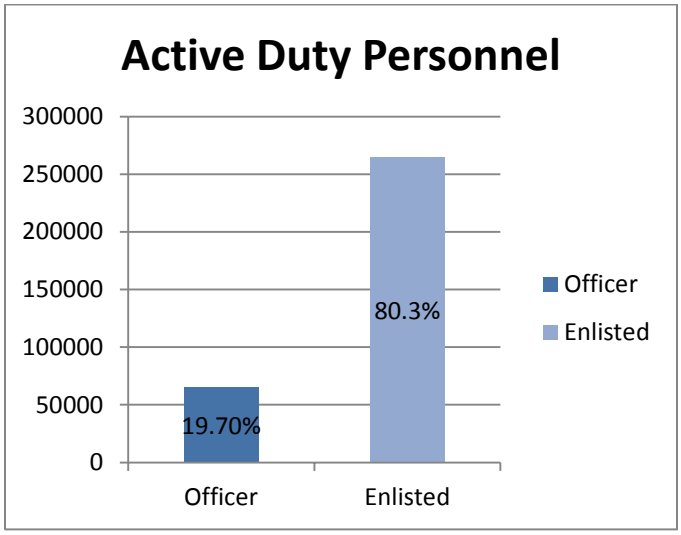
Field Operating Agency (FOA)
A FOA is a subdivision of the Air Force that carries out field activities under the operational control of a Headquarters U.S. Air Force functional manager. FOAs perform field activities beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit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

Air Force Resources

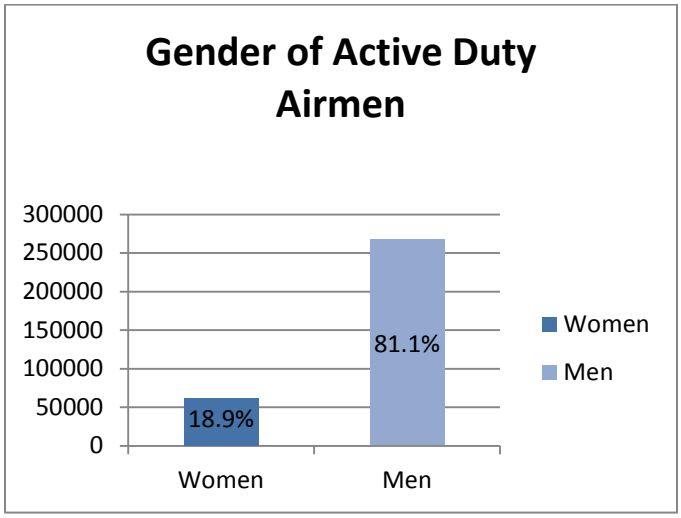
People: Trained, motivated, and dedicated. The Air Force consists of over 690,129 military and civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air, space, and cyberspace. The foundation for this is our people. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These

warriors make possible the successful accomplishment of Air Force missions.

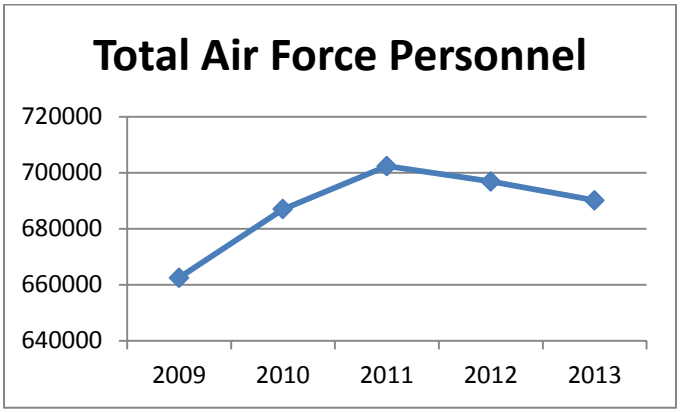




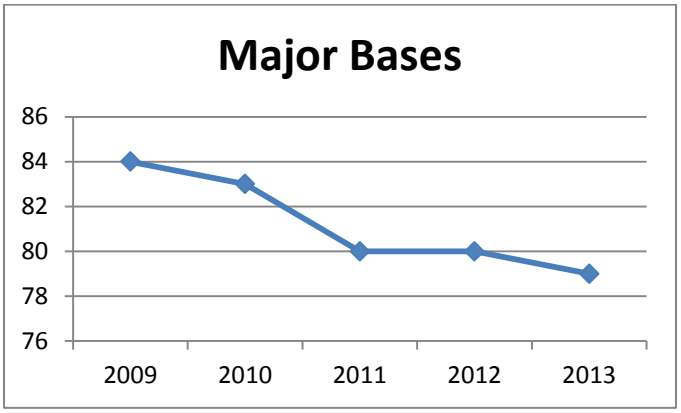
The Air Force has 14,426 pilots, 3,643 navigators and 1,540 air battle managers in the grade of lieutenant colonel and below. The Air Force has 25,620 nonrated line officers in the grade of lieutenant colonel and below.



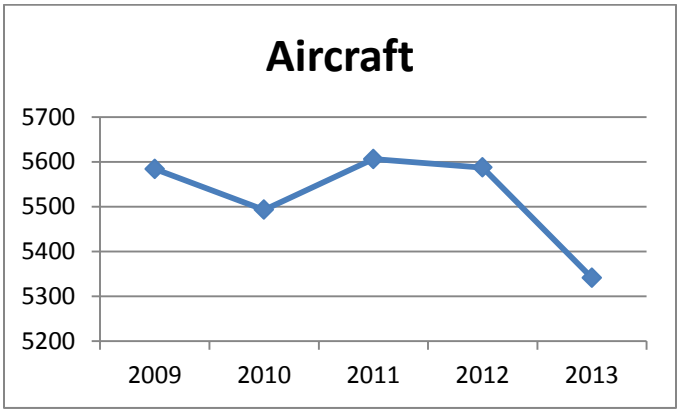
There are 62,241 women serving in the Active Air Force. The Air Force has 725 female pilots, 265 navigators, and 216 air battle managers.



Major Bases: The Air Force is a global force with facilities in the United States and around the world. The Air Force has 65 major bases in the continental United States and another 14 major bases outside the continental United States.



Aircraft: The Air Force has 5,341 aircraft. Flying the most technologically advanced aircraft in the world helps us maintain air superiority, provide global mobility, and gives us precision strike capability.



Management Assertions

The Air Force is responsible for establishing and maintaining effective internal controls over operations and financial reporting to meet the objectives of the Federal Financial Managers' Financial Integrity Act (FMFIA). We evaluated our system of internal control during the fiscal year in compliance with the FMFIA. The evaluation was performed in accordance with the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*. The objectives of the internal control program are to provide reasonable assurance that:

- Obligations and costs comply with applicable law
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation
- Revenue and expenditures applicable to Air Force operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over assets.

The Air Force implements our internal control program at all levels and aims to improve the efficient and effective use of resources and increase accountability in all functional areas. Our process calls for managers to apply internal controls to all significant operational and mission responsibilities.

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

- Enterprise Information Protection Capability
- Air Force Audit Follow-Up Program
- Segregation of Duties in the Defense Travel System
- Information Assurance Workforce Program
- Weapons of Mass Destruction Emergency Response Program

These weaknesses were in the internal controls governing both the effectiveness and efficiency of operations and the compliance with applicable laws and regulations.

The Air Force can provide a qualified statement of reasonable assurance that internal controls over financial reporting were operating effectively, with the exception of nine material weaknesses:

- Contractor Managed/Possessed Property (Operating Materials and Supplies)
- Deficiencies in General Fund Accounts Receivable Financial Reporting
- Deficiencies in General Fund Accounts Payable Financial Reporting
- Deficiencies in Air Force Working Capital Fund Accounts Receivable Financial Reporting
- Deficiencies in Air Force Working Capital Fund Accounts Payable Financial Reporting
- Financial Statement Reporting of Active Air Force Environmental Liabilities
- Existence and Completeness of Government Furnished Equipment
- Use of Historical Cost to Value Operating Materials and Supplies
- Air Force In-Transit Inventory Tracking, Visibility, and Financial Reporting

When a material weakness is identified, the cause is determined and a corrective action plan is implemented. The Air Force Weakness Tracking System is used to monitor the progress the Air Force is making to remedy the material weakness. This system logs and tracks all planned corrective actions and identifies responsible personnel and completion dates. Tracking continues from first reporting until resolution of the material weakness. The weakness is considered closed only after corrective actions are verified to be effective.

For FY 2013, the Air Force did not completely comply with the Federal Financial Management Improvement Act. Many Air Force financial management systems do not comply with federal financial management system requirements. The design of legacy Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full accrual accounting basis, provide the necessary system access controls, or comply with the U.S. Standard General Ledger at the transaction level. The Air Force had one financial system material weakness in FY 2013:

- Integrated Financial Management System

Progress Towards Auditability

The Air Force recognizes the benefits of having auditable financial statements and is executing a plan to meet the September 30, 2014 deadline for

an audit ready Statement of Budgetary Resources and the September 30, 2017 deadline for audit readiness of all financial statements. Financial statements that have passed the scrutiny of an independent audit will demonstrate to the Congress and the American people that the funds entrusted to us are wisely spent.

During the last year, the Air Force solicited support from independent public accounting firms who had experience auditing large government agencies. Due to contract protests, this effort took much longer than expected. However, after a seven month delay, the Financial Improvement and Audit Readiness team is now in place. We have organized a strategy team comprised of Air Force Financial Management personnel, DFAS Office of Audit Readiness staff, and staff from our independent audit firm contractor to carefully identify opportunities to accelerate the audit readiness process without sacrificing thoroughness. We will also leverage the work performed by the MAJCOMs and the Air Force Audit Agency during the previous year. Although these measures will help the Air Force achieve auditability, we will have to overcome significant challenges.

The Air Force does not have a system that records individual transactions using the U.S. Standard General Ledger. We are also unable to trace financial transactions from the underlying business events to the financial statements and back. We rely on a manual process to establish an audit trial.

Statement of Budgetary Resources (SBR)

Over the last year, the Air Force made significant progress towards SBR auditability. Funds Distribution from the MAJCOM Level to the Base Level was asserted as audit ready in FY 2012. Civilian Payroll, for both the General Fund and the Working Capital Fund, was asserted as audit ready in March 2013. An audit readiness examination for Fund Distribution to the Base and Civilian Payroll began by an independent public audit (IPA) firm in August 2013. The IPA will issue three opinions- Civilian Payroll-General Fund, Civilian Payroll-Working Capital Fund, and Fund Distribution to Base in the 2nd quarter of FY 2014. In previous years the Air Force asserted audit readiness for Appropriations Received and the Fund Balance with Treasury reconciliation process. An independent public audit firm issued “clean” or unqualified examination opinions for both assertions.

In FY 2014, the Air Force will complete final audit preparations and validate the SBR as audit ready. During 2014, we will have internal controls in place and functioning to support current year budgetary activities. In FY 2015, we will begin audits of FY 2015 appropriations and each year thereafter, improve the validity of the SBR and sustain audit results.

Existence and Completeness of Mission Critical Assets

The Air Force continues to execute a plan to assert to the existence and completeness of mission critical assets. In FY 2012, we asserted spare engines and missile motors as audit ready. In FY 2013, The DoD Inspector General issued an examination report with a qualified opinion for spare engines and an unqualified opinion of uninstalled missile motors. In previous years the Air Force asserted military equipment, cruise missiles, and aerial targets/drones as audit ready. Military equipment includes aircraft, inter-continental ballistic missiles, and satellites. Cruise missiles and aerial targets/drones are components of the Operating Materials and Supply (OM&S) line item. In the 3rd quarter of FY 2012, the DoD Inspector General issued an unqualified examination opinion on military equipment, cruise missiles and aerial targets/drones. The value of these assets is approximately $86 billion, which is 41 percent of Air Force mission critical assets and 14 percent of DoD mission critical assets.

The Air Force is scheduled to assert Munitions as audit ready in FY 2014 and General Equipment as audit ready in FY 2015. Government-Furnished Equipment, OM&S/Inventory-Base Possessed, and OM&S/Inventory-Contractor Possessed will be asserted as audit ready in FY 2016. At the conclusion of these efforts, the Air Force will be able to provide assurance that assets recorded in accountable systems exist and that all mission critical assets are properly recorded in our financial records.

Current and Future Financial Systems - Defense Enterprise Accounting and Management System (DEAMS)

DEAMS is the Air Force financial management Enterprise Resource Planning (ERP) system that uses industry-proven Oracle® software to provide war fighters with timely, accurate and reliable financial information leading to more efficient and effective decisions. It replaces decades-old inefficient technology that no longer complies with

federal law and Department of Defense regulations. When fully implemented, DEAMS will be an integrated, contemporary financial management system for the Air Force and U.S. Transportation Command (USTRANSCOM). It will comply with existing laws, regulations and policies to achieve audit readiness by 2017 as originally required by the Fiscal Year 2010 National Defense Authorization Act.

In addition to making the Air Force audit ready, DEAMS, which uses Oracle Federal Financials software, will help resolve material weaknesses, improve the timeliness and accuracy of financial management information, support consistent financial reporting to DoD, and enable Business Process Re-engineering.

The system uses shared data, proven business best practices and state-of-the-art commercial off-the-shelf software to automate processing, eliminate many manual processes and reduce residual off-line processing. It uses transaction-based Standard Financial Information Structure (SFIS)-compliant data to produce a compliant U.S. Standard General Ledger (USSGL), and will create financial statements for the Transportation Working Capital Fund (TWCF) and Air Force General Fund, becoming the Air Force financial system of record. DEAMS will replace the General Accounting Finance System (GAFS), Automated Business Services System (ABSS), the Integrated Accounts Payable System (IAPS), and other financial feeder systems.

DEAMS first deployed at Scott AFB, IL, as a two-phased technology demonstration, deploying commitment accounting in 2007 and the full DEAMS capability in May 2010. The system has since been implemented at McConnell AFB, KS, (October 2012); and Dover AFB, DE; Grand Forks AFB, ND; Little Rock AFB, AR; and Pope Field, NC (October 2013). The DFAS center at Limestone, ME, which supports the six bases using DEAMS, also uses the system, bringing the total number of users to approximately 1,800. DEAMS is scheduled to deploy throughout the Air Force in a series of releases between fiscal years 2014 and 2017.

Analysis of Financial Statements

As discussed in the accompanying independent auditor's report, long-standing financial management challenges prevent the Air Force from producing auditable financial statements for either the General Fund or the Working Capital Fund. The Air Force has made significant progress toward improving the quality and timeliness of our financial information. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with accounting principles generally accepted for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

Air Force General Fund

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

Military Personnel (MILPERS)

This appropriation provides funding for the care and payroll of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel including regular pay, allowances, and bonuses. Additionally, this appropriation funds all Permanent Change of Station (PCS) moves and supports a total force (active, reserve and guard) of 506,040.

Operations & Maintenance (O&M)

This appropriation funds key readiness programs critical to prepare forces for and to conduct combat operations and other peacetime missions. These include day-to-day operating costs such as flying hours, space operations, depot maintenance, training, spare parts, facilities, base operations and civilian pay. The FY 2013 appropriation supported 79 major installations, including operations at two space lift ranges, and funded approximately 1.1 million flying hours.

Procurement

This appropriation provides for purchase of aircraft, missiles, vehicles, electronic and

telecommunications equipment, satellite and launch equipment, base maintenance and support equipment, and investment-type spares. The FY 2013 program included large purchases of the MQ-9A Reaper, F-35A Lightning II, and the Joint Direct Attack Munition.

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

This appropriation provides funding for the research and development of next generation weapons and platforms and for the testing and evaluation of current prototypes and upgrades. The FY 2014 major focus areas include:

- Commitment to modernizing the air fleet with the following developments:
    - Continued development of the KC-46 aircraft through aircraft certification and qualification testing
    - Development of various air systems for the F-35 program
    - Development of a new long-range, nuclear capable, optionally manned, penetrating bomber
- Sustaining Science and Technology funding to remain on the cutting edge of technology to meet tomorrow's threats
- Sustaining the critical Test and Evaluation program to continue operating wind tunnels, rocket and jet engine test cells, armament ranges, aircraft test beds, and other test facilities
- Strengthen space superiority through the following efforts:
    - Development of the Space Fence which includes deploying advanced sensors to search, track and identify the expanding number of debris objects in orbit
    - Funding the next generation Global Positioning Systems to provide worldwide GPS capability to the warfighter as well as national security, civil, allied, and commercial users
    - Continued development of Spaced Based Infrared Systems efforts to provide an initial warning of ballistic missile attacks on the United States, its deployed forces and its allies

Military Construction (MILCON)

Typically this appropriation applies to any military construction project, either major or minor, that exceeds $750,000, and for the planning and design for those projects. In FY 2013, the Military Construction Budget was approximately $400 million. These funds were used to fund 22 major projects.

Military Family Housing

The Military Family Housing Construction account funds new construction, construction improvements, planning and design and the Federal government costs for family housing privatization projects. The Military Family Housing Operation and Maintenance accounts pays for maintenance and repair, furnishings, management, services, utilities, leasing, interest, mortgage insurance, and miscellaneous expenses. During FY 13 the Military Family Housing Construction account was approximately $100 million and the Operations and Maintenance account was approximately $500 million. The Air Force plans to complete privatization of military within the continental United States by the end of calendar year 2013.

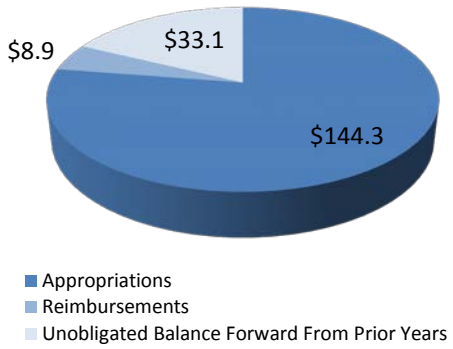
Base Realignment and Closure (BRAC)

The law authorizes the BRAC accounts to fund one-time, nonrecurring costs required to implement approved BRAC recommendations. Following the completion of the statutory implementation period, the accounts may only be used for environmental restoration and property management and to discharge legal obligations incurred. In addition, the law stipulates the accounts as the sole source of environmental restoration for base closures covered by the law. The FY 2013 BRAC program was approximately $100 million.

Results of Operation

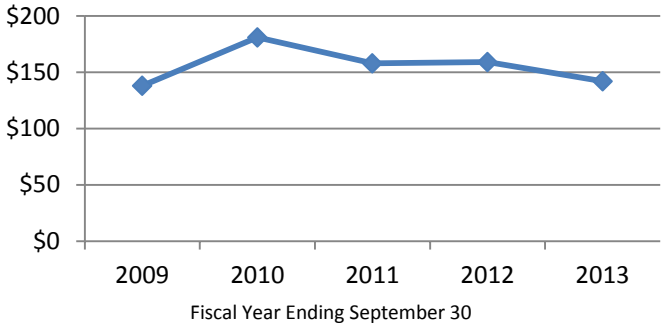
The Combined Statement of Budgetary Resources presents total budgetary resources of $187.8 billion that were available to the AFGF during FY 2013. Total budgetary resources for FY 2012 were $215.3 billion. Total obligations incurred in FY 2013 were $162.1 billion compared to $182.3 billion for FY 2012.

AFGF Sources of Funds, FY 2013
($ in Billions)



The Combined Statement of Net Cost presents net cost of operations of $142.2 billion during FY 2013 compared to $158.7 billion for FY 2012. Net cost of operations represents gross costs incurred by the AFGF less earned revenue.

AFGF Net Cost of Operation, FY 2009- 2013
($ in Billions)

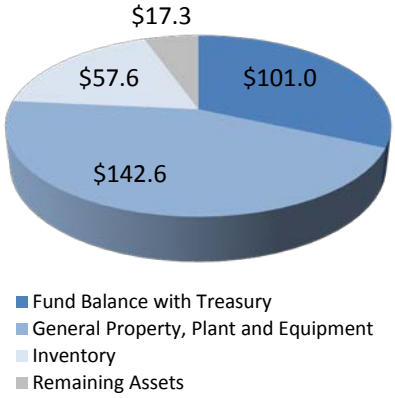


Financial Position

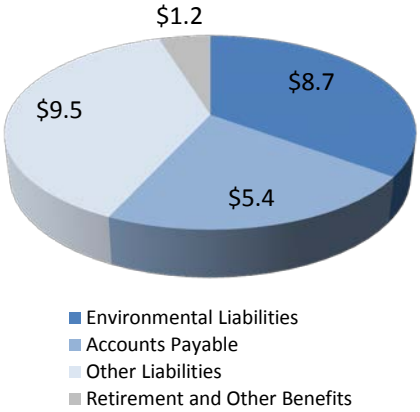
The AFGF continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets (what is owned) and total liabilities (what is owed). As of September 30, 2013, net position totaled $293.7 billion. As of September 30, 2012 net position totaled $287.6 billion.

Total assets were $318.5 billion as of September 30, 2013, compared to $313.5 billion as of September 30, 2012. Total liabilities were $24.8 billion as of September 30, 2013, compared to $26.0 billion as of September 30, 2012.

AFGF Total Assets, FY 2013
($ in Billions)



AFGF Total Liabilities, FY 2013
($ in Billions)



Air Force Working Capital Fund

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

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

The AFWCF allows the Air Force to accomplish the following: ensure readiness through reduced support costs, stabilized rates and responsive customer service; flexibility to respond to customer support needs in real-world situations; focus management attention on net operating results, including cost and performance; identify the total cost of providing support products and services; and establish strong customer/provider relationships.

Consolidated Sustainment Activity Group (CSAG)

CSAG is an AFWCF business activity chartered for operation in FY 2009. The mission of CSAG is supply management of reparable and Air Force managed consumable items as well as maintenance services. Under CSAG, business operations formerly known as DMAG are now characterized as the Maintenance Division and business operations formerly known as MSD are now designated the Supply Division.

The **CSAG Maintenance Division** repairs systems and spare parts to ensure readiness in peacetime and to provide sustainment for combat forces in wartime. This division operates on the funds received from its customers through sales of its services. In peacetime, the Air Force enhances readiness by efficiently and economically repairing, overhauling and modifying aircraft, engines, missiles, components and software to meet customer demands. The Maintenance Division's depots have unique skills and equipment required to support and overhaul both new, complex components as well as aging weapon systems. During wartime or contingencies, the depots can surge repair operations and realign capacity to support the war fighter's immediate needs.

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

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

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

Supply Management Activity Group–Retail

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

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

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

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

The **Air Force Academy Division** finances the purchase of uniforms and uniform accessories for

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

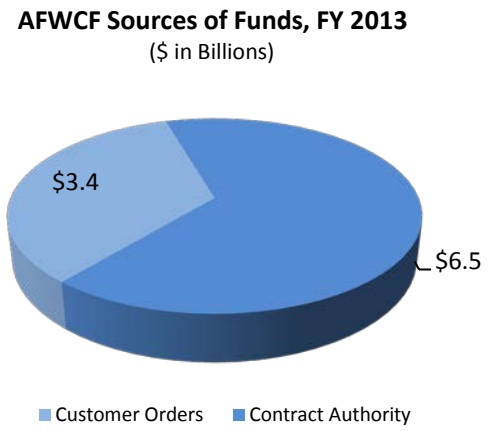
Air Force Working Capital Fund Customers

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

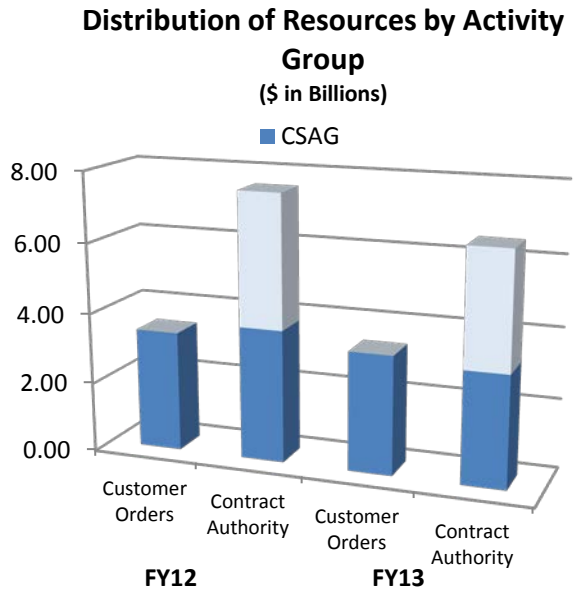
Results of Operation

Available Resources:

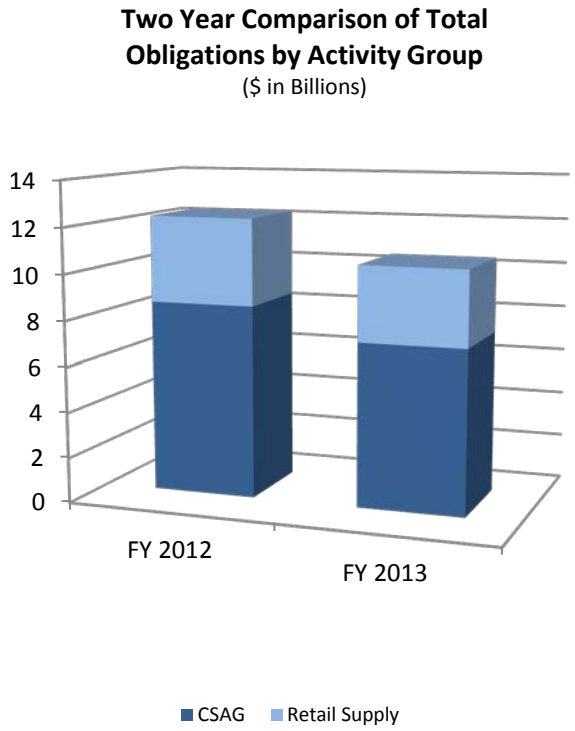
The combined Statement of Budgetary Resources presents total budgetary resources of $10.9 billion that were available to AFWCF during FY 2013 and the status of those resources at fiscal year-end. Total budgetary resources consist of reimbursable Customer Orders Accepted and Contract Authority Used. For comparison, total budgetary resources for fiscal year-end 2012 were $12.4 billion. The pie chart below is the graphic representation of the ratio between the Customer Orders Accepted and the Contract Authority Used in FY 2013.



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



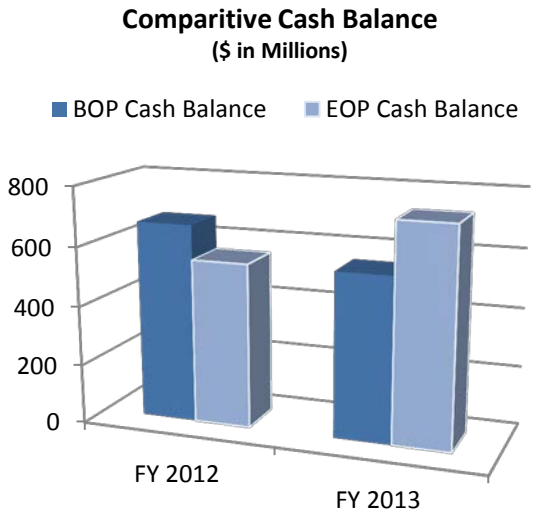
The combined FY 2013 year end Statement of Budgetary Resources presents the total obligations incurred during FY 2013 of $10.4 billion, compared to $12.3 billion during FY 2012. The chart below is a two year comparative of how those obligations were distributed between CSAG and SMAG-R.



The net difference between the FY 2013 total budgetary resources and the total obligations incurred during FY 2013 is the Available Budgetary Resources of $545.2 million. This balance will carry forward and become the opening balance for AFWCF FY2014 operations. For comparison, the FYE 2012 Available Budgetary Resources for AFWCF were $106.6 million.

Cash Management

The AF manages working capital fund cash at the Department level. This cash is made up of both AFWCF and the USTRANSCOM cash balances and is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTRANSCOM is included with the Other Defense Organizations reporting which is separate from the AFWCF. Thus, the table below presents cash balances for AFWCF less TWCF. AF targets to maintain cash levels at seven to ten days of operational costs. The target also includes sufficient cash reserves to meet six months of projected capital outlays, as required by the Department of Defense Financial Management Regulation. The AFWCF FY 2013 seven-day cash requirement was $474.2 million and the ten-day requirement was $625.9 million. AFWCF yearend cash balance, $730.3 million, exceeded the 10 day target. The chart below depicts the comparative cash position.



Fiscal Year 2013

Annual Financial Statements

Limitations to the Financial Statements

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

General Fund
Principal Statements

Fiscal Year 2013

The FY 2012 Department of the Air Force General Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the General Fund for the fiscal year ending September 30, 2013, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2012.

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

Consolidated Balance Sheet
The Consolidated Balance Sheet presents as of September 30, 2013 and 2012 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Net Cost
The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2013 and 2012. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

Consolidated Statement of Changes in Net Position
The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2013 and 2012.

Combined Statement of Budgetary Resources
The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2013 and 2012, the status of these resources at September 30, 2013 and 2012, and the outlay of budgetary resources for the years ended September 30, 2013 and 2012.

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

Department of Defense
Department of the Air Force
CONSOLIDATED BALANCE SHEET
As of September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 100,970,671	$ 112,402,627
Investments (Note 4)	1,077	1,072
Accounts Receivable (Note 5)	423,363	465,673
Other Assets (Note 6)	203,947	175,315
Total Intragovernmental Assets	$ 101,599,058	$ 113,044,687
Cash and Other Monetary Assets (Note 7)	$ 83,280	$ 80,838
Accounts Receivable,Net (Note 5)	261,685	422,316
Inventory and Related Property,Net (Note 9)	57,594,470	50,711,684
General Property, Plant and Equipment,Net (Note 10)	142,593,418	137,082,241
Other Assets (Note 6)	16,371,817	12,207,338
TOTAL ASSETS	$ 318,503,728	$ 313,549,104
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 2,195,768	$ 2,493,311
Other Liabilities (Note 15 & 16)	2,056,873	2,193,658
Total Intragovernmental Liabilities	$ 4,252,641	$ 4,686,969
Accounts Payable (Note 12)	$ 3,210,979	$ 4,435,280
Military Retirement and Other Federal Employment Benefits (Note 17)	1,194,082	1,150,353
Environmental and Disposal Liabilities (Note 14)	8,661,607	9,084,414
Other Liabilities (Note 15 and Note 16)	7,482,838	6,606,541
TOTAL LIABILITIES	$ 24,802,147	$ 25,963,557
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	106,573,118	113,050,127
Cumulative Results of Operations - Dedicated Collections (Note 23)	33,364	19,479
Cumulative Results of Operations - Other Funds	187,095,099	174,515,941
TOTAL NET POSITION	$ 293,701,581	$ 287,585,547
TOTAL LIABILITIES AND NET POSITION	$ 318,503,728	$ 313,549,104

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 174,535,420	$ 167,747,722
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	174,535,420	167,747,722
Budgetary Financing Sources:		
Appropriations used	148,545,663	162,287,755
Nonexchange revenue	104,508	898
Donations and forfeitures of cash and cash equivalents	16,091	1,762
Transfers-in/out without reimbursement	(596,005)	370,000
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	238,398	(1,200,678)
Imputed financing from costs absorbed by others	747,791	763,656
Other (+/-)	5,734,950	3,222,510
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	154,791,396	165,445,903
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	142,198,353	158,658,205
Net Change	12,593,043	6,787,698
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	187,128,463	174,535,420
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 113,050,127	$ 114,254,051
Beginning balances, as adjusted	113,050,127	114,254,051
Budgetary Financing Sources:		
Appropriations received	154,560,455	162,893,282
Appropriations transferred-in/out	704,893	1,659,029
Other adjustments (rescissions, etc)	(13,196,694)	(3,468,480)
Appropriations used	(148,545,663)	(162,287,755)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	(6,477,009)	(1,203,924)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	106,573,118	113,050,127
Net Position	293,701,581	287,585,547

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Combined	2012 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	33,078,536	38,007,021
Unobligated balance brought forward, Oct 1, as adjusted,	$ 33,078,536	$ 38,007,021
Recoveries of prior year unpaid obligations	4,304,908	5,451,702
Other changes in unobligated balance (+ or -)	(2,779,621)	(1,436,459)
Unobligated balance from prior year budget authority, net	34,603,823	42,022,264
Appropriations (discretionary and mandatory)	144,269,164	162,892,954
Spending Authority from offsetting collections	8,896,412	10,414,411
Total Budgetary Resources	187,769,399	215,329,629
Status of Budgetary Resources:		
Obligations Incurred	162,141,210	182,251,093
Unobligated balance, end of year		
Apportioned	20,240,334	28,142,256
Exempt from Apportionment	13,293	11,493
Unapportioned	5,374,562	4,924,787
Total unobligated balance, end of year	25,628,189	33,078,536
Total Budgetary Resources	187,769,399	215,329,629
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	81,011,196	74,701,468
Obligations incurred	162,141,210	182,251,093
Outlays (gross) (-)	(161,966,481)	(170,489,664)
Recoveries of prior year unpaid obligations (-)	(4,304,907)	(5,451,702)
Unpaid obligations, end of year	76,881,018	81,011,195
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,173,733)	(3,032,491)
Change in uncollected pymts, Fed sources (+ or -)	210,759	858,758
Uncollected pymts, Fed sources, end of year (-)	(1,962,974)	(2,173,733)
Obligated balance, start of year (+ or -)	78,837,463	71,668,977
3200 Obligated balance, end of year (+ or -)	74,918,044	78,837,462

Department of Defense
Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Combined	2012 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	153,165,576	173,307,365
Actual offsetting collections (discretionary and mandatory) (-)	(9,107,170)	(11,273,169)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	210,759	858,758
Budget Authority, net (discretionary and mandatory)	144,269,165	162,892,954
Outlays, gross (discretionary and mandatory)	161,966,481	170,489,664
Actual offsetting collections (discretionary and mandatory) (-)	(9,107,170)	(11,273,169)
Outlays, net (discretionary and mandatory)	152,859,311	159,216,495
Distributed offsetting receipts (-)	(93,909)	(177,075)
Agency Outlays, net (discretionary and mandatory)	152,765,402	159,039,420

Department of Defense
Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Dedicated Collections	2013 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 19,470	$ 174,515,949
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	19,470	174,515,949
Budgetary Financing Sources:		
Appropriations used	0	148,545,663
Nonexchange revenue	1,057	103,450
Donations and forfeitures of cash and cash equivalents	16,091	0
Transfers-in/out without reimbursement	0	(596,005)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(25)	238,423
Imputed financing from costs absorbed by others	0	747,791
Other (+/-)	0	5,734,948
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	17,123	154,774,270
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	4,334	142,194,018
Net Change	12,789	12,580,252
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	32,259	187,096,201
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 113,050,127
Beginning balances, as adjusted	0	113,050,127
Budgetary Financing Sources:		
Appropriations received	0	154,560,455
Appropriations transferred-in/out	0	704,893
Other adjustments (rescissions, etc)	0	(13,196,694)
Appropriations used	0	(148,545,663)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(6,477,009)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	106,573,118
Net Position	32,259	293,669,319

Department of Defense
Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Eliminations	2013 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 174,535,419
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	174,535,419
Budgetary Financing Sources:		
Appropriations used	0	148,545,663
Nonexchange revenue	0	104,507
Donations and forfeitures of cash and cash equivalents	0	16,091
Transfers-in/out without reimbursement	0	(596,005)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	238,398
Imputed financing from costs absorbed by others	0	747,791
Other (+/-)	0	5,734,948
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	154,791,393
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	142,198,352
Net Change	0	12,593,041
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	0	187,128,460
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 113,050,127
Beginning balances, as adjusted	0	113,050,127
Budgetary Financing Sources:		
Appropriations received	0	154,560,455
Appropriations transferred-in/out	0	704,893
Other adjustments (rescissions, etc)	0	(13,196,694)
Appropriations used	0	(148,545,663)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(6,477,009)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	106,573,118
Net Position	0	293,701,578

Department of Defense
Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2012 Dedicated Collections	2012 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 12,425	$ 167,735,297
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	12,425	167,735,297
Budgetary Financing Sources:		
Appropriations used	0	162,287,754
Nonexchange revenue	898	0
Donations and forfeitures of cash and cash equivalents	1,762	0
Transfers-in/out without reimbursement	0	370,000
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(9)	(1,200,669)
Imputed financing from costs absorbed by others	0	763,656
Other (+/-)	0	3,222,509
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	2,651	165,443,250
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	(4,394)	158,662,599
Net Change	7,045	6,780,651
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	19,470	174,515,948
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 114,254,051
Beginning balances, as adjusted	0	114,254,051
Budgetary Financing Sources:		
Appropriations received	0	162,893,282
Appropriations transferred-in/out	0	1,659,029
Other adjustments (rescissions, etc)	0	(3,468,481)
Appropriations used	0	(162,287,754)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(1,203,924)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	113,050,127
Net Position	19,470	287,566,075

Department of Defense
Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2012 Eliminations	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 167,747,722
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	167,747,722
Budgetary Financing Sources:		
Appropriations used	0	162,287,754
Nonexchange revenue	0	898
Donations and forfeitures of cash and cash equivalents	0	1,762
Transfers-in/out without reimbursement	0	370,000
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	(1,200,678)
Imputed financing from costs absorbed by others	0	763,656
Other (+/-)	0	3,222,509
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	165,445,901
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	158,658,205
Net Change	0	6,787,696
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	0	174,535,418
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 114,254,051
Beginning balances, as adjusted	0	114,254,051
Budgetary Financing Sources:		
Appropriations received	0	162,893,282
Appropriations transferred-in/out	0	1,659,029
Other adjustments (rescissions, etc)	0	(3,468,481)
Appropriations used	0	(162,287,754)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(1,203,924)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	113,050,127
Net Position	0	287,585,545

Department of Defense
Department of the Air Force
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
Program Costs		
Gross Costs	$ 147,150,801	$ 168,983,383
Military Personnel	35,964,780	35,365,094
Operations, Readiness & Support	52,771,687	56,975,553
Procurement	31,706,980	44,410,025
Research, Development, Test & Evaluation	25,449,411	28,534,874
Family Housing & Military Construction	1,257,943	3,697,837
(Less: Earned Revenue)	(4,952,448)	(10,325,178)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	142,198,353	158,658,205
Net Program Costs Including Assumption Changes	142,198,353	158,658,205
Net Cost of Operations	$ 142,198,353	$ 158,658,205

General Fund

Fiscal Year 2013

Notes to the Principal Statements

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

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

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

The DoD currently has 13 auditor identified material weaknesses. Of these the Air Force has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Operating Materials and Supplies; (5) Government Furnished Equipment; (6) Contractor Managed/Possessed Property (Operating Materials and Supplies); (7) Accounts Payable; (8) Environmental Liabilities; (9) Statement of Net Cost; (10) Intragovernmental Eliminations; (11) Other Accounting Entries; and (12) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

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

1.C. Appropriations and Funds

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

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

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at DoD Information Related to the American Recovery and Reinvestment Act of 2009.

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

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

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

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

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

AF Account Number	Title
57 * 0704	Military Family Housing, Operations and Maintenance (O&M) and Construction, Air Force
57 * 0740	Military Family Housing (Construction), Air Force
57 * 0743	Military Family Housing (Construction), Air Force, Recovery Act
57 * 0745	Military Family Housing, Operations and Maintenance (O&M), Air Force
57 * 0748	Military Family Housing, Operations and Maintenance (O&M), Air Force, Recovery Act
57 * 0810	Environmental Restoration, Air Force
57 * 1007	Medicare Eligible Retiree Health Fund Contributions, Air Force
57 * 1008	Medicare Eligible Retiree Health Fund Contributions, Air Force Reserve
57 * 1009	Medicare Eligible Retiree Health Fund Contributions, Air National Guard
57 * 3010	Aircraft Procurement, Air Force
57 * 3011	Procurement of Ammunition, Air Force
57 * 3020	Missile Procurement, Air Force
57 * 3080	Other Procurement, Air Force
57 * 3300	Military Construction, Air Force
57 * 3307	Military Construction, Air Force, Recovery Act
57 * 3400	Operations and Maintenance (O&M), Air Force
57 * 3404	Operations and Maintenance (O&M), Air Force, Recovery Act
57 * 3500	Military Personnel, Air Force
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), Air Force
57 * 3605	Research, Development, Testing, and Evaluation (RDT&E), Air Force, Recovery Act
57 * 3700	Personnel, Air Force Reserve
57 * 3730	Military Construction, Air Force Reserve
57 * 3740	Operations and Maintenance (O&M), Air Force Reserve
57 * 3744	Operations and Maintenance (O&M), Air Force Reserve, Recovery Act
57 * 3830	Military Construction, Air National Guard
57 * 3834	Military Construction, Air National Guard, Recovery Act

57 * 3840	Operations and Maintenance (O&M), Air National Guard
57 * 3844	Operations and Maintenance (O&M), Air National Guard, Recovery Act
57 * 3850	Personnel, Air National Guard
57 X 5095	Wildlife Conservation, etc., Military Reservations, Air Force
57 X 8418	Air Force Cadet Fund
57 X 8928	Air Force General Gift Fund
57 * 3XXX (Incl Nonentity)	Budget Clearing Accounts
57 * 6XXX (Nonentity)	Deposit Fund Accounts
57 **** (Nonentity)	Receipt Accounts

1.D. Basis of Accounting

The Air Force's financial management systems are unable to meet all full accrual accounting requirements. Many of the Air Force's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Air Force's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

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

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

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. Some accounts such as civilian pay, military pay, and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by USGAAP.

In the case of Operating Materials & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed.

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

1.G. Accounting for Intragovernmental Activities

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

The U.S. Treasury's Federal Intragovernmental Transactions Accounting Policy Guide and Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provide guidance for reporting and reconciling intragovernmental balances. While the Air Force is unable to fully reconcile intragovernmental transactions with all federal agencies, the Air Force is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DoD which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar

equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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

The Air Force conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Air Force does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

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

Related property includes OM&S and stockpile materiel. The majority of OM&S, with the exception of munitions not held for sale, are valued using the moving average cost method. Munitions not held for sale are valued at standard purchase price. The Air Force uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Air Force uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2011 and FY 2010, the Air Force expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

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

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

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

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

The Air Force invests in nonmarketable market-based U.S. Treasury securities, which are issued to federal agencies by the U.S. Treasury's Bureau of Public Debt. They are not traded on any securities exchange but mirror the prices of particular U.S. Treasury securities traded in the government securities market.

1.O. General Property, Plant and Equipment

The Air Force uses the estimated historical cost for valuing military equipment. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. With the exception of USACE Civil Works and Working Capital Fund, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

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

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

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

The Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Air Force recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.
Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The Air Force's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Fiduciary Activities

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

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Event

Not applicable.

Note 2. Nonentity Assets

As of September 30	2013	2012
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 94,360	$ 122,890
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	$ 94,360	$ 122,890
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 83,280	$ 80,838
B. Accounts Receivable	199,800	293,608
C. Other Assets	174,050	179,050
D. Total Nonfederal Assets	$ 457,130	$ 553,496
3. Total Nonentity Assets	$ 551,490	$ 676,386
4. Total Entity Assets	$ 317,952,238	$ 312,872,718
5. Total Assets	$ 318,503,728	$ 313,549,104

Relevant Information for Comprehension

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

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

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

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

Nonfederal Other Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for the financing of cost-type contracts with nonprofit educational research institutions for experimental research and development work when several contracts or a series of contracts require financing by advance payments. These funds are not available for use in Air Force operations.

Note 3. Fund Balance with Treasury

As of September 30	2013	2012
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	$ 100,849,781	$ 112,266,178
B. Revolving Funds	0	0
C. Trust Funds	24,503	11,568
D. Special Funds	2,027	1,991
E. Other Fund Types	94,360	122,890
F. Total Fund Balances	$ 100,970,671	$ 112,402,627
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 103,068,205	$ 114,557,012
B. Fund Balance per Agency	100,970,671	112,402,627
3. Reconciling Amount	$ 2,097,534	$ 2,154,385

Relevant Information for Comprehension

Other Fund Types include balances in deposit accounts which consist of taxes, small escrow accounts and other federal payroll withholding allotments.

The Air Force shows a reconciling amount of $2.1 billion with U.S. Treasury, which is comprised of the net value of the following:

$19 million in allocation transfers from Air Force (known as the Parent Agency) to the Department of Transportation (DoT) (known as the Child Agency). These funds are reported in the Fund Balance with Treasury (FBWT) on the Air Force Trial Balance but are not included in the Fund Balance per Treasury of the United States via the Governmentwide Accounting System (GWA) because TUS reports these balances under DoT. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.

$25.1 million in allocation transfers to Air Force (known here as the Child Agency) from other agencies (known as Parent Agencies). These are not reported in the FBWT on the Air Force Trial Balance but they are included in the Fund Balance per Treasury in GWA. The Foreign Military Sales-Military Assistance Program (FMS-MAP), the Department of Agriculture and the Department of Transportation record these balances in their FBWT on their respective Trial Balances. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.

$3.05 million in an unavailable receipt account due to it being the Savings Deposit Program (SDP) which is a fiduciary activity. These funds are not reported in the FBWT on the Air Force Trial Balance and are only reported as part of the Fiduciary Cash balances on Footnote 24, however, the balance is included in the Fund Balance per Treasury in GWA.

$2.1 billion in withdrawal of funds in the cancelling appropriations at September 30, 2013. These funds are included in Fund Balance per Treasury but are not included in FBWT per Air Force.

Status of Fund Balance with Treasury

As of September 30	2013	2012
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 20,253,628	$ 28,153,750
B. Unavailable	5,374,821	4,924,787
2. Obligated Balance not yet Disbursed	$ 76,881,017	$ 81,011,195
3. Nonbudgetary FBWT	$ 425,248	$ 487,687
4. NonFBWT Budgetary Accounts	$ (1,964,043)	$ (2,174,792)
5. Total	$ 100,970,671	$ 112,402,627

Relevant Information for Comprehension

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

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

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

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

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

Note 4. Investments and Related Interest

As of September 30	2013				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	1,081	Effective Interest	(8)	1,073	1,073
5. Total Nonmarketable, Market-Based	1,081		(8)	1,073	1,073
B. Accrued Interest	4			4	4
C. Total Intragovernmental Securities	$ 1,085		$ (8)	$ 1,077	$ 1,077
2. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

As of September 30	2012				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	$ 0		$ 0	$ 0	$ 0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	1,072	Effective Interest	(5)	1,067	1,068
5. Total Nonmarketable, Market-Based	1,072		(5)	1,067	1,068
B. Accrued Interest	5			5	5
C. Total Intragovernmental Securities	$ 1,077		$ (5)	$ 1,072	$ 1,073
4. Other Investments					
A. Total Other Investments	$ 0		$ 0	$ 0	N/A

Relevant Information for Comprehension

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

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

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

Note 5. Accounts Receivable

As of September 30	2013		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 423,363	N/A	$ 423,363
2. Nonfederal Receivables (From the Public)	$ 568,304	$ (306,619)	$ 261,685
3. Total Accounts Receivable	$ 991,667	$ (306,619)	$ 685,048

As of September 30	2012		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 465,673	N/A	$ 465,673
2. Nonfederal Receivables (From the Public)	$ 700,231	$ (277,915)	$ 422,316
3. Total Accounts Receivable	$ 1,165,904	$ (277,915)	$ 887,989

Relevant Information for Comprehension

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

Note 6. Other Assets

As of September 30 (Amounts in thousands)	2013	2012
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 203,947	$ 175,315
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	$ 203,947	$ 175,315
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 16,172,797	$ 11,999,840
B. Advances and Prepayments	24,970	28,448
C. Other Assets (With the Public)	174,050	179,050
D. Total Nonfederal Other Assets	$ 16,371,817	$ 12,207,338
3. Total Other Assets	$ 16,575,764	$ 12,382,653

Relevant Information for Comprehension

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

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

The balance of Outstanding Contract Financing Payments includes both $14.4 billion in contract financing payments and $1.7 billion in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Note 7. Cash and Other Monetary Assets

As of September 30	2013	2012
(Amounts in thousands)		
1. Cash	$ 65,853	$ 65,202
2. Foreign Currency	17,427	15,636
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 83,280	$ 80,838

Relevant Information for Comprehension

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

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but are not available for use in its operations. These assets are held by Air Force Disbursing Officers as agents of U.S. Treasury. The total balance of $83 million is restricted.

Note 8. Direct Loans and Loan Guarantees

Not applicable

Note 9. Inventory and Related Property

As of September 30	2013	2012
(Amounts in thousands)		
1. Inventory, Net	$ 0	$ 0
2. Operating Materials & Supplies, Net	57,594,470	50,711,684
3. Stockpile Materiel, Net	0	0
4. Total	$ 57,594,470	$ 50,711,684

Relevant Information for Comprehension

General Composition of OM&S

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

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

Restrictions on the Use of OM&S

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

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

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

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

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

Operating Materiel and Supplies (OM&S) Value

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

In general, the Air Force uses the consumption method of accounting for OM&S, since OM&S is defined in SFFAS No. 3 as materiel that has not yet been issued to the end user. Once issued, the materiel is expensed. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the

amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

Other Air Force Disclosures

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

Inventory, Net

Not applicable

Operating Materials and Supplies, Net

As of September 30	2013			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 43,232,246	$ 0	$ 43,232,246	SP, LAC, MAC
B. Held for Repair	14,362,224	0	14,362,224	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	666,842	(666,842)	0	NRV
D. Total	$ 58,261,312	$ (666,842)	$ 57,594,470	

As of September 30	2012			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 39,196,024	$ 0	$ 39,196,024	SP, LAC, MAC
B. Held for Repair	11,515,660	0	11,515,660	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	402,171	(402,171)	0	NRV
D. Total	$ 51,113,855	$ (402,171)	$ 50,711,684	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other
MAC = Moving Average Cost

Stockpile Materiel, Net

Not applicable.

Note 10. General Property, Plant & Equipment, Net

As of September 30	2013				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 429,420	N/A	$ 429,420
B. Buildings, Structures, and Facilities	S/L	20 Or 40	75,305,165	$ (39,045,802)	36,259,363
C. Leasehold Improvements	S/L	Lease Term	66,046	(13,013)	53,033
D. Software	S/L	2-5 Or 10	627,530	(416,173)	211,357
E. General Equipment	S/L	5 Or 10	47,244,759	(31,966,392)	15,278,367
F. Military Equipment	S/L	Various	296,728,025	(212,002,402)	84,725,623
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	Lease Term	93,898	(84,504)	9,394
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	5,626,861	N/A	5,626,861
J. Other			0	0	0
K. Total General PP&E			$ 426,121,704	$ (283,528,286)	$ 142,593,418

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

As of September 30	2012				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 424,618	N/A	$ 424,618
B. Buildings, Structures, and Facilities	S/L	20 Or 40	72,435,882	$ (37,200,608)	35,235,274
C. Leasehold Improvements	S/L	Lease Term	63,510	(9,808)	53,702
D. Software	S/L	2-5 Or 10	626,824	(402,653)	224,171
E. General Equipment	S/L	5 or 10	47,270,027	(35,597,256)	11,672,771
F. Military Equipment	S/L	Various	293,447,899	(209,292,723)	84,155,176
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	Lease Term	106,923	(91,443)	15,480
I. Construction-in- Progress (Excludes Military Equipment)	N/A	N/A	5,301,049	N/A	5,301,049
J. Other			0	0	0
K. Total General PP&E			$ 419,676,732	$ (282,594,491)	$ 137,082,241

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Heritage Assets and Stewardship Land

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	7,154	0	230	6,924
Archeological Sites	Each	2,649	132	0	2,781
Museum Collection Items (Objects, Not Including Fine Art)	Each	134,189	790	314	134,665
Museum Collection Items (Objects, Fine Art)	Each	12,580	1,460	0	14,040

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	1,566	0	0	1,566
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,279	0	10	6,279
9130	Licensed and Permitted Land	709	22	0	731
9140	Public Land	0	0	0	0
9210	Land Easement	160	0	0	160
9220	In-leased Land	103	0	0	103
9230	Foreign Land	296	0	0	296
Grand Total					9,125
TOTAL - All Other Lands					2,856
TOTAL – Stewardship Lands					6,269

Relevant Information for Comprehension

General Property, Plant and Equipment (PP&E)

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

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

Other Air Force Disclosures

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

Heritage Assets and Stewardship Land

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

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

Stewardship Land comprises land and land rights other than that acquired for or in connection with General PP&E, land acquired via the public domain, or land acquired at no cost. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of such land.

Heritage Assets within the Air Force consist of buildings and structures, archeological sites, museum collection items (objects, not including fine art), and museum collection items (fine art). The Air Force's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. Although the underlying accounting and recordkeeping systems track the quantities of these assets, and, in some cases, their historical cost, information regarding their fair market value is not readily available.

Buildings and Structures: Heritage assets are buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places (NRHP), including multi-use facilities. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA) and The Secretary of Interior's Standards for The Treatment of Historic Properties by each base. The Air Force reported 6,924 buildings and structures on Air Force installations and sites to be Heritage Assets as of September 2013. Installation and Installation Support Team (IST) Cultural Resource Managers (CRMs) were unable to report on FY13 additions because of Sequestration cuts and the October 2013 Furlough. The total of Heritage Asset buildings decreased by 230 in FY13; most of these were demolitions covered under the 2008 Capehart-Wherry Era Housing, the 2010 Cold War Era Ammunition Storage Facilities, and Cold War Era Unaccompanied Housing nation-wide programmatic agreements that completed NHPA Section 106 review for these abundant facilities.

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

Archeological Sites: Prehistoric and historic archaeological sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reports 2,781 archeological sites on or eligible for listing on the National Register as of Sep 2013, an increase of 132 from the 2,649 reported for FY2012. This cohort of archaeological Heritage Assets is a subset of over 19,000 archaeological sites recorded on Air Force controlled and owned lands in the United States and its Territories.

Museum Collection Items, Objects Not Including Fine Art: This represents the number of objects which meet the criteria for historical property as defined in Air Force Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the Air Force national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. The NMUSAF is fully accredited by the American Association of Museums.

During the period 1 October 2011 – 30 September 2013 there have been 790 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 318 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2013 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well as the Stearman PT-13D "Kaydet" which will be featured in a much expanded Tuskegee Airmen exhibit opening in 2014.

Museum Collection Items, Fine Art

The art collection contains original oils, drawing, sketches and sculptures. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. This represents 91 additions from the Air Force Art Program and 1,369 pieces of fine art from the National Museum of the United States Air Force for this fiscal year. Included in the number above are fine art paintings inclusive of the National Museum of the United States Air Force holding. The collection is maintained and kept in good condition. Each year during the annual inventory, Air Force Art requests the condition of the paintings as well. Maintenance continues to be a constant.

Assets Under Capital Lease

As of September 30 (Amounts in thousands)	2013	2012
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 93,898	$ 106,923
B. Equipment	0	0
C. Accumulated Amortization	(84,504)	(91,443)
D. Total Capital Leases	$ 9,394	$ 15,480

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	2013	2012
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	298,812	436,544
D. Total Intragovernmental Liabilities	$ 298,812	$ 436,544
2. Nonfederal Liabilities		
A. Accounts Payable	$ (112,960)	$ (209,471)
B. Military Retirement and Other Federal Employment Benefits	1,191,254	1,148,192
C. Environmental Liabilities	7,556,279	8,022,731
D. Other Liabilities	3,208,834	3,080,303
E. Total Nonfederal Liabilities	$ 11,843,407	$ 12,041,755
3. Total Liabilities Not Covered by Budgetary Resources	$ 12,142,219	$ 12,478,299
4. Total Liabilities Covered by Budgetary Resources	$ 12,659,928	$ 13,485,258
5. Total Liabilities	$ 24,802,147	$ 25,963,557

Relevant Information for Comprehension

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

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

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

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

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

The abnormal balance in Nonfederal Liabilities Accounts Payable of $133 million can be attributed mainly to abnormal balances reported for accounts payable in cancelled appropriations for Operation and Maintenance, Aircraft Procurement, and Research, Development Test & Evaluation.

Note 12. Accounts Payable

As of September 30	2013		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 2,195,768	$ N/A	$ 2,195,768
2. Nonfederal Payables (to the Public)	3,210,995	(16)	3,210,979
3. Total	$ 5,406,763	$ (16)	$ 5,406,747

As of September 30	2012		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 2,493,311	$ N/A	$ 2,493,311
2. Nonfederal Payables (to the Public)	4,435,295	(15)	4,435,280
3. Total	$ 6,928,606	$ (15)	$ 6,928,591

Relevant Information for Comprehension

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

The $16.3 thousand abnormal balance in non-federal payables is interest, penalties, and administrative fees stems from transactions in Air Force Active Operations & Maintenance appropriations for base support and tactical intelligences/special activities.

Several Air Force appropriations are contributing to the $116 million abnormal balance in accounts payable in cancelled appropriations. Prior year adjustments are being reviewed and research is being coordinated with the field office to validate the outstanding balances. Research will continue in FY 2014 to clear the abnormal balance.

Note 13. Debt

Not applicable

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2013	2012
(Amounts in thousands)		
1. Environmental Liabilities--Nonfederal		
A. Accrued Environmental Restoration Liabilities		
1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 5,085,673	$ 5,427,336
2. Active Installations—Military Munitions Response Program (MMRP)	491,835	554,667
3. Formerly Used Defense Sites—IRP and BD/DR	0	0
4. Formerly Used Defense Sites--MMRP	0	0
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	14,722	14,722
2. Environmental Closure Requirements	1,253,417	1,253,417
3. Environmental Response at Operational Ranges	0	0
4. Asbestos	467,582	467,582
5. Non-Military Equipment	34,175	34,175
6. Other	0	0
C. Base Realignment and Closure Installations		
1. Installation Restoration Program	1,274,659	1,282,013
2. Military Munitions Response Program	3,142	14,018
3. Environmental Corrective Action / Closure Requirements	0	82
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0
D. Environmental Disposal for Military Equipment / Weapons Programs		
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	0	0
2. Non-Nuclear Powered Military Equipment	36,402	36,402
3. Other Weapons Systems	0	0
E. Chemical Weapons Disposal Program		
1. Chemical Demilitarization - Chemical Materials Agency (CMA)	0	0
2. Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	0	0
3. Other	0	0
2. Total Environmental Liabilities	$ 8,661,607	$ 9,084,414

Relevant Information for Comprehension

Other Information Related to Environmental Liabilities

An environmental liability is a probable and measurable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. The Air Force acknowledges that liabilities can change for environmental cleanup costs to include (1) costs associated with environmental restoration of sites funded under the Air Force portion of the Defense Environmental Restorations Program (DERP); (2) corrective actions funded with other than DERP, Base Realignment and Closure (BRAC); and (3) environmental costs associated with future closure or disposal of facilities, equipment, asbestos, and weapon systems. These costs include researching and determining the existence of hazardous waste; removing, containing, and/or disposing of hazardous waste from property; or material and property that consist of hazardous waste at the time of shutdown or disposal of the asset. Cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs related to Air Force operations that result in hazardous waste.

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

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

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

Types of Environmental Liabilities Identified

The Air Force has environmental liabilities for clean-up requirements for active installations: Installation Restoration Program, Building Demolition and Debris Removal, Military Munitions Response Program, and Environmental Corrective Action. The Air Force also has environmental liabilities for cleanup requirements at installations closed under BRAC. Finally, the Air Force has identified environmental liabilities for closure and disposal of PP&E to include facilities, general equipment, asbestos, and weapon systems. All clean-up is done in coordination with regulatory agencies, other responsible parties, and current property owners.

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

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Air Force uses engineering estimates and independently validated models to estimate environmental cleanup costs. The models are either developed within the Remedial Action Cost Engineering Requirements application, or a historic comparable project, a specific bid, or an independent government cost estimate is referenced for the current project. The Air Force validates the models in accordance with DoD Instruction 5000.61 and uses the models to estimate environmental cleanup costs based on data received during a preliminary assessment and initial site investigation. The Air Force primarily uses engineering estimates after obtaining data during the remedial investigation/feasibility phase of the environmental project. The Air Force has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, the Air Force expenses cleanup costs associated with that portion of the asset life that has passed since the General PP&E was placed into service. The Air Force systematically recognizes the remaining cost over the life of the assets. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment is $373 million.

Once the environmental cleanup cost estimates are complete, Air Force will comply with accounting standards to assign costs to current operating periods. The Air Force Accrued Environmental Restoration Liability is accounted for as a totally self contained program. All direct and indirect costs of the program are captured and reported. The Air Force systematically recognizes the remaining cost over the life of the assets.

The accounting standards also require environmental liabilities recognized for closure and disposal requirements. Air Force has closure requirements or disposal liabilities at active installations. Closure and disposal liabilities for facilities (including landfills), asbestos, general equipment and weapon systems are estimated for the applicable inventory of real property, general equipment and weapon systems. Air Force uses a set of historical disposal factors to estimate the environmental disposal liability for each asset and the estimated closure and monitoring cost for landfills. The current liability for these classes of assets is determined from the related disposal programs including the resources expected to be expended in the next year from prior and future budgets.

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

The Air Force is not aware of any pending changes to reported values of Environmental Liabilities but recognizes that changes may occur in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

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

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

The Air Force has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Air Force is unable to provide a reasonable estimate at this time because the extent of required restoration necessary for returning an installation to a host nation is unknown.

Other Disclosures

The total Air Force Active Installations environmental liabilities decreased from FY12 to FY13 due to the continuation of efforts which have reduced manpower and centralized restoration personnel's roles and responsibilities. Additionally, The Air Force achieve further reductions in environmental liabilities resulting from accelerated site completions, realizing more site closures than projected for FY13. The total Air Force BRAC environmental liabilities decreased from FY12 to FY13 resulting from accelerated site cleanup/closure and execution of Performance Based Remediation (PBR) contracts at multiple BRAC installations. Even though there was an overall decrease, there were fluctuations in the Cost-to-Complete (CTC) of plus or minus 10% at 24 Legacy BRAC and 4 BRAC05 installations. Increases in the CTC at 19 installations

primarily resulted from; addressing emerging contaminants where aqueous film forming foam (AFFF) was used; use of innovative technologies at landfills; increase in field-driven post-PBR costs, which continue to add fidelity to installation-specific requirements following an existing PBR; and program reallocation from the Environmental Corrective Action / Closure Requirements and Military Munitions Response Program lines to the Installation Restoration Program line. The Air Force General Fund is unable to systematically gather and report environmental disposal liabilities for military equipment and general property, plant, and equipment. The Air Force General Fund will continue to coordinate with the Office of the Under Secretary of Defense (Comptroller) to address this deficiency. Additionally, as the Air Force implements internal controls to accurately accumulate and report the liability, changes to some of the recorded estimates could occur and the Air Force General Fund will adjust subsequent reporting periods' Note 14 disclosures. For FY13, the Air Force General Fund has no basis to estimate an adjustment to the previously recorded liability balances.

Note 15. Other Liabilities

As of September 30	2013		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 926,299	$ 0	$ 926,299
B. Deposit Funds and Suspense Account Liabilities	330,886	0	330,886
C. Disbursing Officer Cash	263,290	0	263,290
D. Judgment Fund Liabilities	19,185	0	19,185
E. FECA Reimbursement to the Department of Labor	110,965	131,294	242,259
F. Custodial Liabilities	0	193,840	193,840
G. Employer Contribution and Payroll Taxes Payable	42,655	0	42,655
H. Other Liabilities	38,459	0	38,459
I. Total Intragovernmental Other Liabilities	$ 1,731,739	$ 325,134	$ 2,056,873
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 1,964,495	$ 0	$ 1,964,495
B. Advances from Others	53,442	0	53,442
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	94,362	0	94,362
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,643,477	0	2,643,477
H. Capital Lease Liability	1,870	14,312	16,182
I. Contract Holdbacks	311,634	0	311,634
J. Employer Contribution and Payroll Taxes Payable	93,188	0	93,188
K. Contingent Liabilities	0	2,305,794	2,305,794
L. Other Liabilities	264	0	264
M. Total Nonfederal Other Liabilities	$ 5,162,732	$ 2,320,106	$ 7,482,838
3. Total Other Liabilities	$ 6,894,471	$ 2,645,240	$ 9,539,711

As of September 30	2012		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 803,354	$ 0	$ 803,354
B. Deposit Funds and Suspense Account Liabilities	364,795	0	364,795
C. Disbursing Officer Cash	262,061	0	262,061
D. Judgment Fund Liabilities	133,841	0	133,841
E. FECA Reimbursement to the Department of Labor	112,447	141,686	254,133
F. Custodial Liabilities	0	291,434	291,434
G. Employer Contribution and Payroll Taxes Payable	35,263	0	35,263
H. Other Liabilities	48,777	0	48,777
I. Total Intragovernmental Other Liabilities	$ 1,760,538	$ 433,120	$ 2,193,658
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 1,792,119	$ 0	$ 1,792,119
B. Advances from Others	65,755	0	65,755
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	122,892	0	122,892
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	2,645,133	0	2,645,133
H. Capital Lease Liability	2,020	22,208	24,228
I. Contract Holdbacks	92,993	0	92,993
J. Employer Contribution and Payroll Taxes Payable	62,990	0	62,990
K. Contingent Liabilities	0	1,792,951	1,792,951
L. Other Liabilities	7,480	0	7,480
M. Total Nonfederal Other Liabilities	$ 4,791,382	$ 1,815,159	$ 6,606,541
3. Total Other Liabilities	$ 6,551,920	$ 2,248,279	$ 8,800,199

Capital Lease Liability

As of September 30	2013			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2014	$ 8,688	$ 0	$ 0	$ 8,688
B. 2015	8,688	0	0	8,688
C. 2016	0	0	0	0
D. 2017	0	0	0	0
E. 2018	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	$ 17,376	$ 0	$ 0	$ 17,376
H. Less: Imputed Interest Executory Costs	1,194	0	0	1,194
I. Net Capital Lease Liability	$ 16,182	$ 0	$ 0	$ 16,182
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 16,182
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0

As of September 30	2012			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2013	$ 9,462	$ 0	$ 0	$ 9,462
B. 2014	8,688	0	0	8,688
C. 2015	8,688	0	0	8,688
D. 2016	0	0	0	0
E. 2017	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	$ 26,838	$ 0	$ 0	$ 26,838
H. Less: Imputed Interest Executory Costs	2,610	0	0	2,610
I. Net Capital Lease Liability	$ 24,228	$ 0	$ 0	$ 24,228
2. Capital Lease Liabilities Covered by Budgetary Resources				$ 24,228
3. Capital Lease Liabilities Not Covered by Budgetary Resources				$ 0

Relevant Information for Comprehension

Intragovernmental Other Liabilities represent government contributions for employee benefits and unemployment compensation.

Nonfederal Other Liabilities reflect accrued moving allowance and miscellaneous expenses to contractors.

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

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

Note 16. Commitments and Contingencies

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

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

Claims and litigation from Civil Law having a reasonably possible liability are estimated at $340 million. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administrated by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

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

The amount of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment is $972.8 million.

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

The estimated probable liability amount of $2.3 billion was recognized in Note 15 as contingent liabilities.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of September 30, 2013, valued at $565 million, included in Nonfederal Contingent Liabilities. As of June 30, 2013, the Air Force was party to 3,317 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select Federal Government personnel disciplinary matters.

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

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

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2013		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 1,191,253	$ 0	$ 1,191,253
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	2,829	(2,829)	0
E. Total Other Benefits	$ 1,194,082	$ (2,829)	$ 1,191,253
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,194,082	$ (2,829)	$ 1,191,253

As of September 30	2012		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 1,148,191	$ 0	$ 1,148,191
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	2,162	(2,162)	0
E. Total Other Benefits	$ 1,150,353	$ (2,162)	$ 1,148,191
3. Total Military Retirement and Other Federal Employment Benefits:	$ 1,150,353	$ (2,162)	$ 1,148,191

Relevant Information for Comprehension

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

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

Interest rate assumptions utilized for discounting were as follows:

Discount Rates
2.727% in Year 1
3.127% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors [Cost of Living Adjustment (COLA)] and medical inflation factors [Consumer Price Index Medical (CPIM)] were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2013 were also used to adjust the methodology's historical payments to current-year constant dollars.

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

CBY	COLA	CPIM
2013	N/A	N/A
2014	1.67%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018	2.20%	3.82%
and thereafter		

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2012 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in FY 2012 projection to the average pattern for the projections of the most recent three years.

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

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

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

Intragovernmental Costs and Exchange Revenue As of September 30	2013	2012
(Amounts in thousands)		
Military Retirement Benefits		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Civil Works		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	$ 8,243,590	$ 12,439,091
B. Nonfederal Cost	27,721,190	22,926,002
C. Total Cost	$ 35,964,780	$ 35,365,093
2. Earned Revenue		
A. Intragovernmental Revenue	$ (470,069)	$ (431,674)
B. Nonfederal Revenue	8,654	(332,535)
C. Total Revenue	$ (461,415)	$ (764,209)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 35,503,365	$ 34,600,884

Operations, Readiness & Support				
1. Gross Cost				
A. Intragovernmental Cost	$	(1,763,402)	$	(3,443,037)
B. Nonfederal Cost		54,535,089		60,418,591
C. Total Cost	$	52,771,687	$	56,975,554
2. Earned Revenue				
A. Intragovernmental Revenue	$	(604,350)	$	(540,912)
B. Nonfederal Revenue		(284,326)		93,503
C. Total Revenue	$	(888,676)	$	(447,409)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	51,883,011	$	56,528,145
Procurement				
1. Gross Cost				
A. Intragovernmental Cost	$	18,464,152	$	19,796,871
B. Nonfederal Cost		13,242,828		24,613,154
C. Total Cost	$	31,706,980	$	44,410,025
2. Earned Revenue				
A. Intragovernmental Revenue	$	(283,343)	$	(463,086)
B. Nonfederal Revenue		(646,104)		(172,771)
C. Total Revenue	$	(929,447)	$	(635,857)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	30,777,533	$	43,774,168
Research, Development, Test & Evaluation				
1. Gross Cost				
A. Intragovernmental Cost	$	10,506,768	$	11,745,005
B. Nonfederal Cost		14,942,643		16,789,869
C. Total Cost	$	25,449,411	$	28,534,874
2. Earned Revenue				
A. Intragovernmental Revenue	$	(2,610,040)	$	(2,908,316)
B. Nonfederal Revenue		(62,677)		(1,459,292)
C. Total Revenue	$	(2,672,717)	$	(4,367,608)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Total Net Cost	$	22,776,694	$	24,167,266

Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	$ 135,514	$ 179,138
B. Nonfederal Cost	1,122,429	3,518,699
C. Total Cost	$ 1,257,943	$ 3,697,837
2. Earned Revenue		
A. Intragovernmental Revenue	$ (193)	$ (11,529)
B. Nonfederal Revenue	0	(4,098,566)
C. Total Revenue	$ (193)	$ (4,110,095)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 1,257,750	$ (412,258)
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	$ 35,586,622	$ 40,717,068
B. Nonfederal Cost	111,564,179	128,266,315
C. Total Cost	$ 147,150,801	$ 168,983,383
2. Earned Revenue		
A. Intragovernmental Revenue	$ (3,967,995)	$ (4,355,517)
B. Nonfederal Revenue	(984,453)	(5,969,661)
C. Total Revenue	$ (4,952,448)	$ (10,325,178)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
4. Costs Not Assigned to Programs	$ 0	$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	$ 0	$ 0
Total Net Cost	$ 142,198,353	$ 158,658,205

Relevant Information for Comprehension

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

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

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

The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenue. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses.

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

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

The $8.7 million abnormal balance in Military Personnel Nonfederal Revenue is due to the return of their overearnings to the U.S. Treasury.

In 2013 Operations, Readiness & Support reported an abnormal balance for Intragovernmental cost in the amount of $1.8 billion. This is in relation to transfers to and from other government entities. Because of business practices, sometimes transfers from other Intergovernmental entities are recorded against program cost instead of revenue.

Note 19. Disclosures Related to the Statement of Changes in Net Position

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

Effective with FY 2013 reporting, the Department has elected an alternative presentation for the Statement of Changes in Net Position (SCNP)as provided for in Statement of Federal Financial Accounting Standards (SFFAS) No. 43: "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds." Prior to the implementation of SFFAS 43, the SCNP contained separate columns for reporting of funds from dedicated collections. Beginning in FY 2013, the SCNP will provide a reference to the "Funds from Dedicated Collections" footnote and will no longer include separate columns on the face of the statement.

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of $10.3 billion. The difference is due to additional resources included in the Appropriations line item on the SBR. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources, for further information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2013	2012
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 83,828,998	$ 83,077,686
2. Available Borrowing and Contract Authority at the End of the Period	0	0

Relevant Information for Comprehension

Apportionment Categories

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

	Category A	Category B	Exempt
Direct	$90.4 billion	$62.7 billion	$14.2 million
Reimbursable	$6.0 billion	$3.1 billion	$ 0 million

Intraentity Transactions

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

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

Permanent Indefinite Appropriations

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

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

Wildlife Conservation Fund [16 USC 670(a)]

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

Medicare-Eligible Retiree Health Fund Contribution, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (10 USC 1116)

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

Appropriations Received

Appropriations on the SBR differ from those reported on the Statement of Changes in Net Position (SCNP) because (1) Appropriations on the SBR include transfers and permanent reductions to authority and (2) Appropriations Received on the SCNP do not include dedicated appropriations and earmarked receipts. Dedicated appropriations and earmarked receipts are accounted for as either nonexchange revenue or donations and forfeitures of cash and cash equivalents. This resulted in a $10.3 billon difference.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2013	2012
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 162,141,210	$ 182,251,093
2. Less: Spending authority from offsetting collections and recoveries (-)	(13,123,636)	(15,865,739)
3. Obligations net of offsetting collections and recoveries	$ 149,017,574	$ 166,385,354
4. Less: Offsetting receipts (-)	(93,909)	(177,075)
5. Net obligations	$ 148,923,665	$ 166,208,279
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	238,398	(1,200,678)
8. Imputed financing from costs absorbed by others	747,791	763,656
9. Other (+/-)	5,734,950	3,222,510
10. Net other resources used to finance activities	$ 6,721,139	$ 2,785,488
11. Total resources used to finance activities	$ 155,644,804	$ 168,993,767
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	$ (751,311)	$ (4,038,873)
12b. Unfilled Customer Orders	(187,645)	212,936
13. Resources that fund expenses recognized in prior Periods (-)	(664,173)	(2,115,191)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	93,909	177,075
15. Resources that finance the acquisition of assets (-)	(9,484,846)	(11,185,716)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	(6,051,029)	(2,022,201)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (17,045,095)	$ (18,971,970)
18. Total resources used to finance the Net Cost of Operations	$ 138,599,709	$ 150,021,797

As of September 30	2013	2012
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 17,377
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	0	(44,742)
23. Other (+/-)	371,739	188,189
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 371,739	$ 160,824
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 11,951,400	$ 11,802,237
26. Revaluation of assets or liabilities (+/-)	1,673,505	2,676,242
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	0	0
27c. Operating Material and Supplies Used	6,564,693	23,708,304
27d. Other	(16,962,693)	(29,711,199)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 3,226,905	$ 8,475,584
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 3,598,644	$ 8,636,408
30. Net Cost of Operations	$ 3,598,644	$ 8,636,408

Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data do not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost is ($14.2) million in the Other Components Not Requiring or Generating Resources category.

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

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

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

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

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period consist of expenses due to Air Force active military personnel.

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

Note 22. Disclosures Related to Incidental Custodial Collections

The Air Force collected $43.1 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. These funds are not available for use by Air Force. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

Note 23. Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)	2013				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 26,530	$ 0	$ 26,530
Investments	0	0	1,077	0	1,077
Accounts and Interest Receivable	0	0	(154)	0	(154)
Other Assets	0	0	4,869	0	4,869
Total Assets	$ 0	$ 0	$ 32,322	$ 0	$ 32,322
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	0	0	62	23	85
Total Liabilities	$ 0	$ 0	$ 62	$ 23	$ 85
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	32,260	1,104	33,364
Total Liabilities and Net Position	$ 0	$ 0	$ 32,322	$ 1,127	$ 33,449
STATEMENT OF NET COST For the period ended September 30 (Amounts in thousands)					
Program Costs	$ 0	$ 0	$ 4,334	$ (1,079)	$ 3,255
Less Earned Revenue	0	0	0	0	0
Net Program Costs	$ 0	$ 0	$ 4,334	$ (1,079)	$ 3,255
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ 4,334	$ (1,079)	$ 3,255

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 (Amounts in thousands)	2013				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	$ 0	$ 0	$ 19,470	$ 0	$ 19,470
Net Cost of Operations	0	0	4,334	(1,079)	3,255
Budgetary Financing Sources	0	0	17,149	0	17,149
Other Financing Sources	0	0	(25)	25	0
Change in Net Position	$ 0	$ 0	$ 12,790	$ 1,104	$ 13,894
Net Position End of Period	$ 0	$ 0	$ 32,260	$ 1,104	$ 33,364

BALANCE SHEET As of September 30 (Amounts in thousands)	2012				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
ASSETS					
Fund balance with Treasury	$ 0	$ 0	$ 13,558	$ 0	$ 13,558
Investments	0	0	1,072	0	1,072
Accounts and Interest Receivable	0	0	0	0	0
Other Assets	0	0	5,042	0	5,042
Total Assets	$ 0	$ 0	$ 19,672	$ 0	$ 19,672
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	0	0	202	0	202
Total Liabilities	$ 0	$ 0	$ 202	$ 0	$ 202
Unexpended Appropriations	0	0	0	0	0
Cumulative Results of Operations	0	0	19,470	9	19,479
Total Liabilities and Net Position	$ 0	$ 0	$ 19,672	$ 9	$ 19,681
STATEMENT OF NET COST For the period ended September 30 (Amounts in thousands)					
Program Costs	$ 0	$ 0	$ 443	$ 0	$ 443
Less Earned Revenue	0	0	(4,837)	0	(4,837)
Net Program Costs	$ 0	$ 0	$ (4,394)	$ 0	$ (4,394)
Less Earned Revenues Not Attributable to Programs	0	0	0	0	0
Net Cost of Operations	$ 0	$ 0	$ (4,394)	$ 0	$ (4,394)

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 (Amounts in thousands)	2012				
	Military Retirement Fund	Medicare Eligible Retiree Health Care Fund	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	$ 0	$ 0	$ 12,425	$ 0	$ 12,425
Net Cost of Operations	0	0	(4,394)	0	(4,394)
Budgetary Financing Sources	0	0	2,660	0	2,660
Other Financing Sources	0	0	(9)	9	0
Change in Net Position	$ 0	$ 0	$ 7,045	$ 9	$ 7,054
Net Position End of Period	$ 0	$ 0	$ 19,470	$ 9	$ 19,479

Relevant Information for Comprehension

Effective with FY 2013 reporting, the Air Force has reclassified Other Earmarked Funds in accordance with clarifying language provided by the Statement of Federal Financial Accounting Standards 43: “Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.” For comparative purposes, FY 2012 balances have been restated to reflect the removal of the reclassified fund/funds from FY 12 balances.

The reclassified fund/funds was/were evaluated against SFFAS 43 and determined to no longer meet the criteria for reporting as “dedicated collections” because 1) of the explicit exclusion for funds that were established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees; and/or 2) the funds primary source of financing came from the federal government rather than from the public.

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

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

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

Wildlife Conservation Fund [16 USC 670 (a)]

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

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

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

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

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

Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

For the period ended September 30	2013	2012
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	$ 32,517	$ 37,353
2. Fiduciary revenues	0	0
3. Contributions	45,612	49,746
4. Investment earnings	2,692	3,047
5. Gain (Loss) on disposition of investments, net	0	0
6. Administrative and other expenses	0	0
7. Distributions to and on behalf of beneficiaries	(47,729)	(57,629)
8. Increase/(Decrease) in fiduciary net assets	$ 575	$ (4,836)
9. Fiduciary net assets, end of period	$ 33,092	$ 32,517

Schedule of Fiduciary Net Assets

For the period ended September 30	2013	2012
(Amounts in thousands)		
FIDUCIARY ASSETS		
1. Cash and cash equivalents	$ 33,091	$ 32,517
2. Investments	0	0
3. Other Assets	0	0
FIDUCIARY LIABILITIES		
4. Less: LIABILITIES	$ 0	$ 0
5. TOTAL FIDUCIARY NET ASSETS	$ 33,091	$ 32,517

Relevant Information for Comprehension

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

Note 25. Other Disclosures

As of September 30	2013 Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. ENTITY AS LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2014	31,373	0	15,903	47,276
2015	30,251	0	16,062	46,313
2016	26,599	0	16,222	42,821
2017	25,771	0	16,384	42,155
2018	23,193	0	16,525	39,718
After 5 Years	11,481	0	16,739	28,220
Total Future Lease Payments Due	$ 148,668	$ 0	$ 97,835	$ 246,503

Relevant Information for Comprehension

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

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

Note 26. Restatements

Not applicable for 2013.

General Fund

Fiscal Year 2013

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS

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

NONFEDERAL PHYSICAL PROPERTY

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

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in State and Local Governments
For the Current and Four Preceding Fiscal Years
($ in millions)

Categories	FY 2013	FY 2012	FY	FY 2010	FY 2009
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	$ 12.3	$ 7.6	$ 12.0	$ 11.5	$ 19.6
Totals	$ 12.3	$ 7.6	$ 12.0	$ 11.5	$ 19.6

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

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

RESEARCH AND DEVELOPMENT

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

INVESTMENTS IN RESEARCH AND DEVELOPMENT
Yearly Investment in Research and Development
For the Current and Four Preceding Fiscal Years
($ in millions)

Categories	FY 2013	FY 2012	FY	FY 2010	FY 2009
1. Basic Research	$ 473	$ 494	$ 475	$ 473	$ 444
2. Applied Research	1,024	1,120	1,175	1,120	1,185
3. Development:					
Advanced Technology Development	582	598	546	598	709
Advanced Component Development and Prototypes	1,105	1,179	1,981	1,179	2,283
System Development and Demonstration	4,503	2,783	3,137	2,783	3,925
Research, Development, Test and Management Support	1,114	1,270	1,440	1,270	1,480
Operational Systems Development	14,664	14,913	18,653	14,913	16,460
Totals	$	$ 22,357	$	$ 22,336	$ 26,486

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

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

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

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

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

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

4. Research, Development, Test and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction

maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

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

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

Basic Research

Air Force-funded researchers combined breakthroughs in multiple disciplines including fluid dynamics and measurement of visual perception to mitigate the risk of brownout clouds to pilots, ground crews and flight hardware. Fundamental basic science studies of the fluid dynamic environment including the interaction of high-speed air flows with the ground cover and the resulting physics of flying sediment led to high-fidelity computational models of brownout clouds, which were subsequently validated with experimental testing. This was combined with research into novel optical metrics that emphasize the visual features important for pilots, and provided the means to assess brownout cloud quality and the degradation in the visual environment. When these research efforts were combined, the result was advanced rotorcraft flight simulators which allow pilots to train without risk to personnel or hardware, investigate novel brownout mitigation strategies, and increase readiness at reduced cost in support of the Air Force's Personnel Recovery mission.
Air Force-funded research in ultracold atom science can be exploited for accelerometers and gyroscopes supporting Precision, Navigation and Timing (PNT) in Global Positioning System (GPS)-denied environments. The physical stability of cold atoms provides fundamental constants of nature which allows the measuring of time to better than one second in 3.7 billion years. Current gyroscopes are based on 1970's precision machined technology with over 19,000 moving parts. Cold atom gyroscopes, in contrast, have no moving parts and have significantly lower bias error while having enhanced sensitivity to acceleration than mechanical gyroscopes. In work performed at the Air Force Research Laboratory (AFRL), researchers designed an "atom chip" which incorporates a magneto-optical trap for cold atoms in a palm-sized package that uses lasers and magnetic field coils to reach ultracold conditions without the need for cryogenic technology. This work suggests production system costs similar to existing mechanical technology while preserving enhanced performance for the Air Force's PNT mission.

Applied Research

The Joint Space Operations Center (JSpOC) Mission System (JMS) Program is the Program of Record for all Command and Control (C2) and Space Situational Awareness (SSA) technologies destined for the JSpOC. This multi-year effort plans to incrementally deliver a net-centric infrastructure, Space User Defined Operating Picture (UDOP), and all required C2 and SSA functionality to the JSpOC. A prototype JMS system was delivered in FY09. This risk reduction activity was very successful and the JMS Program Manager chose to take the risk reduction activity to the next level. The initial prototype was extended and made more robust. Five additional spirals were delivered to the JSpOC which culminated in operational acceptance of the first increment of JMS by the Commander of Air Force Space Command in March 2013. Increment 1, which delivered the foundational infrastructure, UDOP, and approximately eighty applications, is being used operationally on multiple networks. [Additional details provided under System Development and Demonstration}.

AFRL engineers working with Miami University demonstrated a 23 dB receiver performance improvement using imbalance compensation techniques for wideband electronic intelligence receiver applications. Many electronic intelligence receivers utilize an In-phase/Quadrature (I/Q) digitization scheme to increase processing bandwidth, yet this technique can lead to imbalances in the performance, particularly at the band edges. Building upon previous in-house research in this area, engineers implemented a wideband I/Q imbalance compensation algorithm in real time. The hardware implementation demonstrated a major "break-through" with an average of 23 dB improvement in performance thus increasing dynamic range and sensitivity for next generation electronic intelligence receivers.

Advanced Technology Development

On 1 May 2013, the U.S. military launched an experimental hypersonic aircraft (the X-51A Waverider), accelerating the craft to more than five times the speed of sound in the longest-ever mission for a vehicle of its kind. The Air Force's X-51A Waverider reached a top speed of Mach 5.1 during the test flight, traveling more than 230 nautical miles in just over six minutes.

In addition, Air Force science and technology developed a multi-shot and multi-target aerial demonstration system capable of disabling, degrading, or damaging an adversary's electronic system. The system called CHAMP (Counter Electronics High Powered Microwave Advanced Missile Project) was successfully flight tested on 16 October 2012. During the flight test, the CHAMP cruise missile navigated a pre-programmed flight plan and emitted bursts of high-powered microwaves at targets containing a wide range of representative electronic equipment, effectively delivering a functional disable of the systems. CHAMP is an innovation that meets the size, weight, and safety requirements to integrate into an existing aerial platform. CHAMP has no harmful effect on people or structures in and around the target area. CHAMP technology will provide Combatant Commanders with a non-kinetic counter electronics capability as a complement to lethal measures, increasing mission options for the warfighter.

Advanced Component Development and Prototypes (ACD&P):

Continuing International Cooperative Research and Development (ICR&D) activities include the Fuel System Failure Effects (FSFE) project with Germany. FSFE has the twin goals of identifying non-destructive investigation (NDI) techniques that detect fire damage on aircraft systems, and examining fuel system-related heat, mechanical, and hydrodynamic damage to aircraft materials used in the fabrication of military aircraft.

Continuing International Space Cooperative Research and Development (ISCR&D) activities include the Ionospheric Effects project with the United Kingdom. Ionospheric Effects is investigating techniques to mitigate/exploit space environmental effects on wideband radio frequency (RF) systems. Their goal is to develop global characterization of ionospheric phenomena and assess impacts to generic space-based radio frequency (RF) systems such as GPS and Satellite Communications (SATCOM). In addition the project observes and characterizes ionospheric scintillation events using improved sensors.

New ICR&D activities include the Unmanned Aircraft Systems (UAS) Heavy Fuel Operations and the Wind Tunnel Flow Visualization projects. The UAS Heavy Fuel Operations project with the United Kingdom will develop and demonstrate use of low octane heavy fuel (i.e. JP-8) in small Unmanned Aircraft Systems (UAS) engines as an alternative to the high octane AVGAS
they currently require, but which is not logistically supported in the field. The Wind Tunnel Flow Visualization project with Australia will characterize and improve Background Oriented Schlieren (BOS) flow visualization technique for use in transonic wind tunnels with limited
optical access.

New ISCR&D activities include NAPA II with Sweden. NAPA II or Nanosatellites and Plug and Play Architectures II will develop joint nano-satellites based on plug-and-play architectures with synthetic aperture radar (SAR) payload to include development of "push-button" tool flows integrating ground, user, and launch segments for "designer" nanosatellites.

System Development and Demonstration:

The F-35 Joint Strike Fighter (JSF) program is developing a family of strike fighter aircraft for the Air Force, Navy, Marine Corps and our allies, with maximum commonality among the variants to minimize life cycle costs. The F-35A Conventional Takeoff and Landing (CTOL) variant will be a multi-role, primary air-to-ground aircraft to replace the F-16 and A-10, and will complement the F-22. While the F-22 will establish air dominance, the F-35 with its combination of stealth, large internal payloads and multi-spectral avionics will provide persistent stealth and precision engagement to future battle space. The F-35 is in the 12th year of a 17-year System Development and Demonstration effort. The President's Budget for FY13 decreased procurement by 179 aircraft in order to reduce the impacts of concurrent development and production. Significant program accomplishments in FY13 include:

- The 20th flight test aircraft was delivered and the test fleet flew over 1,164 sorties / 2,018 flight hours.
- Eight production CTOLs were delivered (four aircraft to Nellis AFB and four aircraft to Edwards AFB) to form the basis for the operational test fleet.
- 16 production CTOLs, 14 production Short Takeoff and Vertical Landing (STOVL) and two production Carrier Variant aircraft were delivered to Eglin AFB as part of the training fleet.
- The decision was made to add three squadrons to the Pilot Training Center at Luke AFB to support international training requirements.
- F-35 production aircraft flew over 1,983 sorties / 2,677 flight hours.
- Low Rate Initial Production (LRIP) Lots 5, 6 and airframe contracts were awarded to Lockheed Martin. LRIP Lots 5, 6 and engine contracts were awarded to Pratt & Whitney.
- The CTOL completed weapon bay door open and closed supersonic clean wing flutter testing, clearing the F-35A to 1.6 Mach / 700 knots. The first in-flight missile launch of an AIM-120 from a CTOL aircraft occurred on 5 June 2013.

The KC-46 is the next generation Aerial Refueling Tanker and will replace approximately one third of the aging KC-135 Stratotanker fleet. The aircraft is a militarized commercial derivative of the Boeing 767-200. The KC-46 will provide aerial refueling support to the Air Force, Navy, and Marine Corps as well as allied nation coalition force aircraft, plus increased capabilities for cargo and aeromedical evacuation. Significant FY2013 accomplishments include:

- Critical Design Review (CDR): The program conducted its in July 2013. This was a very successful review resulting in 20 action items of which only six were deemed critical. After all action items were resolved, the CDR was officially closed on 21 August 2013, one month earlier than contractually required. The program is now proceeding deliberately toward its next critical execution goals – flight test readiness review and first flight in 2014 and Milestone C in 2015.
- Engineering & Manufacturing Design (EMD) Aircraft Assembly: The first EMD aircraft began assembly on 26 Jun 2013. EMD aircraft #2 began assembly on 19 Aug 2013. First flight of EMD #1 (767-2C configuration) is planned for June 2014, with first flight of EMD aircraft #2 (KC-46 tanker configuration) planned for Jane 2015.
- KC-46 Aircrew Training System (ATS) Contract Award: The KC-46 ATS contract was awarded to FlightSafety on 1 May 2013. The program is on track for early FY14 Preliminary Design Reviews (PDRs) for the training devices and courseware.

The Joint Space Operations Center (JSpOC) is the command and control (C2) center that enables the Joint Functional Component Command for Space (JFCC-Space) to integrate space forces for global military operations. JSpOC Mission Systems (JMS) replaces legacy JSpOC capabilities with sustainable hardware, open and evolvable software architecture, and best-of-breed Space Situational Awareness tools. JMS lays the groundwork for a predictive battle management and command & control system with continuously evolving space operator roles and responsibilities, sensor integration and data delivery, threat warning, and rapid response capabilities. JMS is broken into multiple increments. Increment 1 has been in continuous operations since Nov 2012. It delivered User Defined Operating Picture (UDOP) and Service Oriented Architecture as a basis for Increment 2, which is currently in progress and will provide the capabilities necessary to migrate off the legacy system. Increment 3 will focus on emerging threats and operational priorities that drive the need for a space battle management and C2 capability. The following is a list of technologies completed or furthered as a result of JMS:

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

The Space Security and Defense Program (SSDP) is a Joint Department of Defense (DoD) and Office of the Director of National Intelligence (ODNI) organization established to function as the center of excellence for options and strategies

(materiel, nonmateriel, cross-community, cross-domain) leading to a more resilient and enduring National Security Space (NSS) Enterprise. In FY13 SSDP completed efforts resulting in the delivery and implementation of actionable solutions for key mission areas (Operations, Satellite Communication (SATCOM), Position-Navigation and Timing (PNT), Missile Warning, Cyber/Non- Kinetic Operations, Space Situational Awareness (SSA), Indications and Warning (I&W), and Intelligence - Surveillance - Reconnaissance (ISR)). Specific efforts include:

- Supported wargames and exercises to help refine Tactics, Techniques and Procedures (TTPs) and Concept of Operations (CONOPS) while integrating intelligence with operations in a contested environment.
- Designed, developed, and delivered validated response options to Combatant Commands for varied threats and integrated new/revised space concepts into US Strategic Command operations/plans.
- Delivered Space Based Space Surveillance (SBSS) analysis that enabled architecture decisions to optimize sensor performance and protection metrics at a lower cost.
- Tested and matured key alternatives and metrics from the Geosynchronous Earth Orbit (GEO) SSA study; resulted in implementation of a common GEO threat baseline by the Intelligence Community and the use of an alternative evaluation methodology for the SSA architecture.
- Made significant progress and provided initial solutions to JSpOC for a functional Electomagnetic Interference (EMI) mitigation architecture.
- Completed Office of the Secretary of Defense (OSD)-directed study and began implementation of Cyber support to defensive space alternatives to mitigate threats against specific systems.

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

AEHF 2 completed on-orbit testing on September 24, 2012 and the 14th Air Force accepted Satellite Control Authority on November 7, 2012. AEHF 3 was successfully launched from Cape Canaveral Air Force Station on September 18, 2013 and is expected to complete on orbit testing in FY14. AEHF 4 production is progressing smoothly with the bus and payload over 50% complete. AEHF 4 launch availability is expected in 2017. The AEHF program is on track to obtain the Initial Operational Capability (IOC) milestone in FY15. IOC includes mission supported, active networks and two separate satellites operating in the AEHF mode. The operational control segment consists of one fixed and one transportable control element and an interim fully operational communications management system.

Research, Development, Test and Evaluation Management Support:

The Air Force's Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installations and operations required for testing at the Air Force Major Range and Test Facility Base (MRTFB) Activities.
In FY2013 multiple Arnold Engineering Development Center (AEDC) facility test capability improvement efforts were completed. AEDC successfully completed ambient and cryogenic testing of new Infrared Arrays in the 7V and 10V space simulation chambers in support of upgrades to the Multi-Spectral Scene Projector (MSSP) test capability. The Von Karman Facility Hypersonic Wind Tunnels A/B/C returned to service after a 24+ month outage for Data Acquisition System upgrades and nozzle actuator and control improvements. The Space Threat Assessment Testbed (STAT) achieved Initial Operational Capability (IOC) upon completion of the stand-up testing for facility characterizations, procedure refinement, and crew training.

Other significant improvement and modernization efforts in FY2013 were focused on range instrumentation and data collection capabilities. The Combined High Speed High Resolution EO/IR Imaging (CHSHR) project modernized the fleet of optical instrumentation (High Speed, Ultra-high Speed, Infrared cameras) on both the Eglin Test and Training Complex and the Holloman High Speed Test Track. Telemetry System Integration Support (TSIS) completed C-band telemetry upgrades to all Telemetry Mobile Ground Station assets used at Edwards AFB and the R-2508 Complex. Infrastructure capabilities of the Gulf Test and Training Control Center were enhanced thru upgrades to the Chapter 10 recorders and implementation of new telemetry processing/displays. Lastly, the Joint Gulf Range Area Network Development

(JGRAND) project advanced the upgrade effort for improved data collection and transport capability on the Eglin Range Information Grid with the completion of Phase II of the Down Range Fiber Optic cable installation.

Operational System Development:

F-22 Raptor Program

The Air Force's operational system efforts include projects in support of development acquisition programs or upgrades. The F-22 Raptor program is now post-production. Operations and sustainment tempo are stabilizing as the fleet achieved 150,000 flying hours. As outstanding a capability the Raptor currently provides, the program will continue to maintain its role as enabler of joint air dominance for years to come through a series of Operational Systems Development activities. Increment 2 is resident in delivered aircraft and represents the first upgrade over Initial Operational Capability (IOC). The modernization program will enhance the air vehicle, engine, and training systems to improve F-22A weapons, communications, and Intelligence Surveillance Reconnaissance (ISR) capabilities to further enhance Global Strike capabilities. The F-22 Raptor program is developing and fielding critical operational capability upgrades in three interdependent increments. Increment 3.1 adds synthetic aperture radar, Small Diameter Bomb, electronic attack and geo-location enhancements. Increment 3.2A adds electronic protection and Link-16 enhancements. Increment 3.2B builds on these increments and adds AIM-9X, AIM-120D and improved geo-location capabilities. Operational flight program (OFP) update 5 is in development now. Scheduled for fielding in FY15, this update will add Auto Ground Collision Avoidance, AIM-9X Basic (lock-on before launch) and Intra-flight Data Link gateway capabilities. FY13 activities included the continued fielding of the Increment 3.1 suite, development of Inc. 3.2a and the Defense Acquisition Board approval of Inc. 3.2B as a separate ACAT ID program entering at Milestone B.

Small Diameter Bomb II

Shrinking force structure, increased tasking, evolving threats, and collateral damage avoidance will drive a demand for a precision strike capability with a mission planned datalink equipped weapon. Small Diameter Bomb (SDB) II will provide strike aircraft with a capability to attack stationary and mobile targets through the weather with standoff capability while retaining miniature munition type weapon attributes (effective day/night, adverse weather, increased load-out, focused logistics, etc.) plus the capability to attack a range of stationary targets across the combat arena. The program is now 37 months into the 83-month EMD phase with developmental test and evaluation ground and flight testing underway. Testing during EMD is structured in a phased Test and Evaluation (T&E) approach with Phase I supporting verification of Normal Attack, Coordinate Attack, and Laser Illuminated Attack modes on the F-15E. Phase II supports integration of the full SDB II capability on the F-35B and F-35C. Production for SDB II is scheduled to start FY14 and continue through FY24.

Airborne Warning and Control System (AWACS)

The Airborne Warning and Control System (AWACS) aircraft continues to modernize its mission capabilities to remain an effective airborne battle management and surveillance system for command and control of combat forces. The Block 40/45 Upgrade improves the quality and timeliness of sensor data for shooters, improves combat identification, supports a common tactical picture through multi-sensor integration, improves the AWACS contribution to Time Critical Targeting via Data Link Infrastructure, improves electronic support measures processing, and enables more effective, faster upgrades via an open system, Ethernet-based architecture. FY13 activities for Block 40/45 continued the development of maintenance and crew training systems, as well as development of a Secure Iridium Communication capability. The Next Generation Identification Friend or Foe (NGIFF) effort provides AWACS with a secure Mode 5 (and Mode S for 40/45 aircraft) capability. The AWACS program continued EMD for the Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification. DRAGON's EMD effort is a cooperative development effort with the NATO AWACS program which will provide aircraft that satisfy international airspace and air traffic control mandates while replacing obsolete avionics. After completion of the critical design review and modification readiness review, testing and modification of the first aircraft (from NATO) began. The AWACS program is also continuing risk reduction efforts on multiple fronts including operations in contested environments and high bandwidth / Beyond Line of Sight (BLOS) communication requirements needed to be relevant on tomorrow's battlefield.

B-2 EHF SATCOM and Computer, Increment 1

The B-2 EHF Increment 1 program replaces the aircraft flight management computers, upgrades and expands digital storage and installs fiber optic buses. The EHF Increment 1 effort is the foundation for all subsequent B-2 avionics upgrades to include updated storage management software for additional mission flexibility and an upgrade to the Defensive Management System to address emerging / proliferating electronic threats to ensure the B-2's continued ability to penetrate adversary defenses in anti-access / area denial (A2/AD) environments. The program office earned approval for LRIP in November 2011, completed a successful initial operational test and evaluation (IOT&E) in June 2012, and signed a production contract for five systems in September 2012. The Director, Operational Test and Evaluation (DOT&E) submitted the Beyond LRIP report on 5 December 2012. The program was approved for Full Rate Production (FRP) in December 2012, with contract award for the final eleven systems later that month. Installation of the first LRIP kit is expected in October 2013. B-2 EHF Increment 1 development is complete – the program is in production and deployment with all production hardware on contract.

B-2 Defensive Management System Modernization (DMS-M)

In FY13 the Air Force continued technology development for the DMS-M program which modernizes the original Defensive Management System to address emerging / proliferating electronic threats, ensuring the B-2 Spirit's continued ability to penetrate adversary defenses in A2/AD environments. DMS-M replaces the electronic support measures (ESM), the avionics graphics processor (AGP) and develops new antennas to expand the frequency coverage and capabilities of the B-2 defensive system. The program completed its pre-EMD review and released a Request for Proposal for EMD in June 2013. A successful technology development phase will culminate with Milestone B and entry into EMD in 2014.

General Fund

Fiscal Year 2013

Required Supplementary Information

Department of Defense
Department of the Air Force
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel
BUDGETARY RESOURCES:			
Budgetary Resources:			
Unobligated balance brought forward, Oct. 1	$ 5,036,908	22,926,562	634,512
Unobligated balance brought forward, Oct. 1, as adjusted	5,036,908	22,926,562	634,512
Recoveries of prior year unpaid obligations	524,267	622,158	347,275
Other changes in unobligated balance (+ or -)	(296,578)	(1,021,162)	(213,336)
Unobligated balance from prior year budget authority, net	5,264,597	22,527,558	768,451
Appropriations (discretionary and mandatory)	22,769,454	32,951,389	35,603,505
Spending Authority from offsetting collections (discretionary and mandatory)	2,726,671	550,612	503,776
Total Budgetary Resources	$ 30,760,722	56,029,559	36,875,732
Status of Budgetary Resources:			
Obligations Incurred	26,392,808	39,503,853	36,189,529
Unobligated balance, end of year			
Apportioned	3,989,688	14,760,279	184,497
Exempt from Apportionment	0	0	0
Unapportioned	378,226	1,765,427	492,706
Total unobligated balance, end of year	4,367,914	16,525,706	677,203
Total Budgetary Resources	$ 30,760,722	56,029,559	36,875,732
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, October 1 (gross)	13,952,619	35,818,150	2,760,757
Obligated incurred	26,392,808	39,503,853	36,198,529
Outlays (gross) (-)	(27,560,609)	(38,361,476)	(35,763,519)
Recoveries of prior year unpaid obligations (-)	(524,267)	(622,158)	(347,275)
Unpaid Obligations, end of year	12,260,551	36,338,369	2,848,492
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(689,696)	(43,759)	(62,044)
Change in uncollected pymts, Fed sources (+ or -)	(44,342)	154	(24,315)
Uncollected pymts, Fed sources, end of year (-)	(734,038)	(43,605)	(86,360)
Obligated balance, start of year (+ or -)	13,262,923	35,774,391	2,698,713
3200 Obligated balance, end of year (+ or -)	$ 11,526,513	36,294,764	2,762,132
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	25,496,125	33,502,001	36,107,281
Actual offering collections (discretionary and mandatory) (-)	(2,682,329)	(550,766)	(479,461)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(44,342)	154	(24,315)
Budget Authority, net (discretionary and mandatory)	$ 22,769,454	32,951,389	35,603,505
Outlays, gross (discretionary and mandatory)	27,560,609	38,361,476	35,763,519
Actual offsetting collections (discretionary and mandatory) (-)	(2,682,329)	(550,766)	(479,461)
Outlays, net (discretionary and mandatory)	24,878,280	37,810,710	35,284,058
Distributed offsetting receipts (-)	0	0	0
Agency Outlays, net (discretionary and mandatory)	$ 24,878,280	37,810,710	35,284,058

Family Housing & Military Construction	Operations, Readiness & Support	2013 Combined	2012 Combined
1,828,591	2,651,965	33,078,536	38,007,021
1,828,591	2,651,965	33,078,536	38,007,021
44,511	2,766,696	4,304,908	5,451,702
(81,165)	(1,167,381)	(2,779,621)	(1,436,459)
1,791,937	4,251,280	34,603,823	42,022,264
392,643	52,552,173	144,269,164	162,892,954
204	5,115,148	8,896,412	10,414,411
$ 2,184,784	61,918,601	187,769,399	215,329,629
741,029	59,304,991	162,141,210	182,251,093
1,039,647	266,224	20,240,334	28,142,256
0	13,293	13,293	11,493
404,109	2,334,093	5,374,562	4,924,787
1,443,756	2,613,610	25,628,189	33,078,536
$ 2,184,785	61,918,601	187,769,399	215,329,629
2,802,270	25,677,400	81,011,196	74,701,468
741,029	59,304,991	162,141,210	182,251,093
(1,738,018)	(58,542,858)	(161,966,481)	(170,489,664)
(44,511)	(2,766,696)	(4,304,907)	(5,451,702)
1,760,769	23,672,837	76,881,018	81,011,195
0	(1,378,234)	(2,173,733)	(3,032,491)
0	279,263	210,759	858,758
0	(1,098,971)	(1,962,974)	(2,173,733)
2,802,270	24,299,166	78,837,463	71,668,977
$ 1,760,769	22,573,866	74,918,044	78,837,462
392,847	57,667,321	153,165,576	173,307,365
(204)	(5,394,411)	(9,107,170)	(11,273,169)
0	279,263	210,759	858,758
$ 392,643	52,552,173	144,269,165	162,892,954
1,738,018	58,542,858	161,966,481	170,489,664
(204)	(5,394,411)	(9,107,170)	(11,273,169)
1,737,814	53,148,447	152,859,311	159,216,495
0	(93,909)	(93,909)	(177,075)
$ 1,737,814	53,054,538	152,765,402	159,039,420

DISAGGREGATED STATEMETN OF BUDGETARY RESOURCES

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

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

HERITAGE ASSETS For Fiscal Year Ended September 30, 2013					
Heritage Asset Categories	**Measurement Quantity**	**As of 9/30/12**	**Additions**	**Deletions**	**As of 9/30/13**
Buildings and Structures	Each	7,154	0	230	6,924
Archaeological Sites	Sites	2,649	132	0	2,781
Museum Collection Items (Objects, Not Including Fine Art)	Each	134,189	790	318	134,661
Museum Collection Items (Fine Art)	Each	1,355	22	4	1,373

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

1. Buildings and Structures

Heritage assets are buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places (NRHP), including multi-use facilities. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA) and The Secretary of Interior's Standards for The Treatment of Historic Properties by each base. The Air Force reported 6,924 buildings and structures on Air Force installations and sites to be Heritage Assets as of September 2013. Installation and Installation Support Team (IST) Cultural Resource Managers (CRMs) were unable to report on FY13 additions because of Sequestration cuts and the October 2013 Furlough. The total of Heritage Asset buildings decreased by 230 in FY13; most of these were demolitions covered under the 2008 Capehart-Wherry Era Housing, the 2010 Cold War Era Ammunition Storage Facilities, and Cold War Era Unaccompanied Housing nation-wide programmatic agreements that completed NHPA Section 106 review for these abundant facilities.

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

2. Archaeological Sites

Archaeological sites are prehistoric and historic archaeological sites that have been identified, evaluated, and determined to be eligible for or are listed on the NRHP in accordance with NHPA Section 110. The Air Force reports 2,781 archeological sites on, or eligible for listing on, the National Register as of September 2013, an increase of 132 from the 2,649 reported for FY12. This cohort of archaeological Heritage Assets is a subset of over 19,000 archaeological sites recorded on Air Force controlled and owned lands in the United States and its Territories.

3. Museum Collection Items, Objects

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

During the period 1 October 2012 – 30 September 2013there have been 790 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 318 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2013 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well as the Stearman PT-13D "Kaydet" which will be featured in much expanded Tuskegee Airmen exhibit opening in 2014.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1,373 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

Stewardship Land

STEWARDSHIP LAND For Fiscal Year Ended September 30, 2013 (Acres in Thousands)					
Facility Code	**Facility Title**	**As of 9/30/12**	**Additions**	**Deletions**	**As of 9/30/13**
9110	Government Owned Land	1,566	0	0	1,566
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	6,279	0	10	6,269
9130	Licensed and Permitted Land	709	217	0	926
9140	Public Land	0	0	0	0
9210	Land Easement	160	0	0	160
9220	In-leased Land	103	0	0	103
9230	Foreign Land	296	0	0	296
				Grand Total	9,320
				Total - All Lands	
				Total - Stewardship Lands	

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

The Air Force has 9,126,187 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

REAL PROPERTY DEFERRED MAINTENANCE

Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2013 ($ in Millions)			
Property Type	**Plant Replacement Value**	**Required Work (Deferred Maintenance)**	**Percentage**
Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$214,479	$18,869	8.8%
Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	$12,340	$99	0.8%
Category 3: Buildings, Structures, and Utilities (Heritage Assets)	$8,974	$927	10.3%

Condition Assessment Survey Method - The deferred maintenance figures in column 2 consist of the current known maintenance and repair requirements needed to correct facility deficiencies in the AF inventory. AF Q-Ratings are not currently based off direct condition assessments, but represent identified requirements by engineers at the installation level. The AF is implementing a sustainment management system condition assessment method, including contract inspections at the installations and training the in-house personnel. Upon full implementation, the deferred maintenance will be pulled from this system.

The figures in Column 1 were calculated based off of an estimate of the current aggregate PRV of all facilities (buildings, structures, and utilities) in the Air Force Real Property inventory of which the DoD has ownership interest (assets that USAF holds title to, as opposed to those assets owned by foreign governments, leased facilities, out-grants, or other federal and non-federal entities), categorized by enduring, excess, and heritage.

The AF has used this process over the past several years. The figures are slightly different from the last report due to use of updated Real Property data and a refresh of the PRV and Q- Ratings. The decrease in deferred maintenance values is attributable to a decrease in identified repair and maintenance projects as well as an increase in the number of facilities forecasted for demolition or declared excess.

Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2013 ($ in Thousands)			
Major Categories	**PB-45 Amounts**	**Adjustments**	**Total**
1. Aircraft	$ 2,658,223	$ (2,344,978)	$313,245
2. Automotive Equipment	20,586	(20,586)	0
3. Combat Vehicles	0	0	0
4. Construction Equipment	0	0	0
5. Electronic and Communications Systems	399,059	(389,831)	9,228
6. Missiles	90,203	(90,113)	90
7. Ships	0	0	0
8. Ordnance Weapons and Munitions	17,889	(17,889)	0
9. General Purpose Equipment	48,821	(48,821)	0
10. All Other Items Not Identified to Above Categories	12,101	(12,101)	0
Total	$ 3,246,882	$ (2,924,319)	$ 322,563

Amounts presented include Deferred Funding for the estimated portion of depot maintenance within Contract Logistics Support (CLS), along with Deferred Funding for Depot Purchased Equipment Maintenance (DPEM). The figures presented are projected deferred maintenance amounts for FY2013 based on the original position as reported in the FY2014 President's Budget. To mitigate the impact of the unfunded requirements, the Air Force reprioritized FY2013 funds, to reduce overall aircraft/engine risk. All depot maintenance requirements for aircraft pending retirement or planned to retire in the near-term were eliminated. In addition, the Congress increased Air National Guard depot maintenance funding by $282M and added $45M in Military Augmentation funds for C-17 requirements based on updated flying hour projections. This resulted in an overall reduction of Air Logistics Center workloads of 10 percent. FY2013 Overseas Contingency Operations (OCO) supplemental funding along with other adjustments for sequestration are included in the Adjustments column. In addition, some requirements that did not generate or were otherwise reduced due to efficiencies realized, or fact of life changes

General Fund

Fiscal Year 2013

Audit Opinion

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

December 9, 2013

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-016)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying Air Force General Fund Consolidated Balance Sheet as of September 30, 2013 and 2012, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and notes on the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the basic statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin 14-02, "Audit Requirements for Federal Financial Statements," October 21, 2013. Based on

the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force General Fund FY 2013 and FY 2012 Basic Financial Statements would not substantially conform to U.S. GAAP and that Air Force financial management and feeder systems were unable to adequately support material amounts on the basic statements as of September 30, 2013. Accordingly, we did not perform all the auditing procedures required by U.S. generally accepted government auditing standards and OMB Bulletin 14-02, to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force General Fund FY 2013 and FY 2012 Basic Statements. Thus, the basic statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic statements. The Air Force presented the Management's Discussion and Analysis; Required Supplementary Stewardship Information; Required Supplementary Information; and Other Information for additional analysis as part of the annual financial statements—these elements are not required parts of the basic statements. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the other information and the basic statements and applicable sections of OMB Circular No. A 136 (Revised), "Financial Reporting Requirements," October 21, 2013 and DoD 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013. However, we do not express an opinion or provide any assurance on the information.

Report on Other Legal and Regulatory Requirements, Contracts, and Grant Agreements

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

See the attachment for additional details on internal controls and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to Air Force officials. Air Force officials have expressed their continuing commitment to addressing the problems this report outlines. Management did not provide comments on a draft of this report.

This report is intended solely for the information and use of Air Force management, the DoD Office of Inspector General, OMB, the U.S. Government Accountability Office, and Congress, and is not intended to be used, and should not be used, by anyone other than these specified parties.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

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

Management Responsibilities

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

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting; however, the following material weaknesses and significant deficiencies could adversely affect the Air Force's financial operations.

Previously Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Management acknowledged that previously identified material weaknesses continued to exist in the following areas.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1 "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure the proper safeguarding of assets to deter fraud, waste, and abuse and provide adequate support for performance measurement information. The Assistant Secretary of the Air Force (Financial

Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did not allow it to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with GAAP, the Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

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

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force has acknowledged that despite its implementation of a new system to improve its controls over recording real property, construction-in-progress, and related expenses, additional corrective actions including improving supporting documentation were required prior to the validation of real-property financial reporting. This validation was required to ensure real-property reporting did not materially misstate General Property, Plant, and Equipment.

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

possession of contractors where such value exceeds the capitalization threshold. As a result, the Air Force did not reliably report the value of its property and material in the possession of contractors.

Environmental Liabilities. The Air Force was not able to support its environmental clean-up cost estimates as recorded in the Air Force Real Property Agency management information system. This system provides unsupported cost information for reporting in the annual financial statements.

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

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

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

Reconciliation of Net Cost of Operations to Budget. Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," states that the Reconciliation of Net Costs of Operations to Budget (in the footnotes to the Basic Financial Statements) should reconcile resources obligated during the accounting period to the net cost of operations for that period. However, as stated in preceding paragraphs, the amounts presented in the Consolidated Statement of Net Costs and assets and liabilities reported in the Balance Sheet may be inaccurate. The Air Force did not reconcile budgetary amounts to actual proprietary expenses and assets and liabilities.

Material Weakness Identified during FY 2013

During Fiscal Year 2013 Air Force management identified the following material weakness.

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

Previously Identified Significant Deficiencies

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

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

Accounts Receivable. The Air Force did not properly reconcile and support the validity of the Accounts Receivable financial statement line item due to reportable conditions related to intra-governmental trading partner eliminations and proper accrual accountability and support.

Accounts Payable. The Air Force did not ensure the accuracy of the amount of Accounts Payable financial statement line item because there were reportable conditions identified in the areas of intra-governmental trading partner eliminations, accruals, supporting documentation, and a lack of reconciliation of the Open Document Listing to ensure accounting data is properly recorded. These reportable conditions result in an inability to properly reconcile and support the validity of Accounts Payable.

Reimbursable Programs. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires the Air Force to track the cost of performing work reimbursed by other Government entities or by non-Federal customers. Statement of Federal Financial Accounting Concepts No. 1 defines costs as a measure of resources (personnel, material, and equipment) used to accomplish the work. The Air Force has acknowledged that its reimbursable programs may not recover all billable costs incurred in the fulfillment of reimbursable orders. Specifically, the Air Force did not always identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were not properly billed to the customer.

Internal control analysis we conducted as part of our prior audits would not necessarily disclose all material weakness and significant deficiencies. The Air Force reported the material weaknesses described above in its FY 2013 Statement of Assurance, except for General Property, Plant, and Equipment; Government Property in Possession of Contractors; Statement of Net Cost; Intragovernmental Eliminations; Other Accounting Entries; and Reconciliation of Net Cost of Operations to Budget Reporting.

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

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements

related to financial reporting. Management has also acknowledged to us instances of noncompliance and that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Air Force complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we did not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our analysis to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31. U.S.C. § 1341[1990]) prohibits the Air Force and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds. Additionally, neither the Air Force nor its agents may contract or obligate Air Force Funds before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

During FY 2013, the Air Force reported one ADA violation. Therefore, the Air Force did not always comply with 31 U.S.C. §§ 1341(1990).

Compliance With FFMIA Requirements

FFMIA requires DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas where an agency is not in compliance, OMB A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The Air Force is executing a plan to meet the September 30, 2014 deadline for audit ready Statement of Budgetary Resources. The Air Force plan states that it is deploying several large information technology systems that will not be fully

deployed in time to meet the FY 2014 and FY 2017 dates. Therefore, the Air Force will rely on manual controls and legacy system enhancements to meet the FY 2014 goal. The Air Force plan states that it is continuing to evaluate policy, processes, and system enhancements for sustainability and cost effectiveness.

For FY 2013, the Air Force did not fully comply with FFMIA. The Air Force acknowledged to us on June 12 and December 9, 2013, that its financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued to exist. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2013.

Recommendations

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

Working Capital Fund Principal Statements

Fiscal Year 2013

The FY 2012 Department of the Air Force Working Capital Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Working Capital Fund for the fiscal year ending September 30, 2012, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2011.

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

Consolidated Balance Sheet
The Consolidated Balance Sheet presents as of September 30, 2012 and 2011 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Net Cost
The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2012 and 2011. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

Consolidated Statement of Changes in Net Position
The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2012 and 2011.

Combined Statement of Budgetary Resources
The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2012 and 2011, the status of these resources at September 30, 2012 and 2011, and the outlay of budgetary resources for the years ended September 30, 2012 and 2011.

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

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 730,327	$ 556,537
Accounts Receivable (Note 5)	541,912	778,172
Other Assets (Note 6)	145,687	167,739
Total Intragovernmental Assets	$ 1,417,926	$ 1,502,448
Accounts Receivable,Net (Note 5)	2,051	4,792
Inventory and Related Property,Net (Note 9)	25,273,424	26,099,598
General Property, Plant and Equipment,Net (Note 10)	1,533,884	1,509,820
Other Assets (Note 6)	184,878	239,991
TOTAL ASSETS	$ 28,412,163	$ 29,356,649
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 165,321	$ 180,355
Other Liabilities (Note 15 & 16)	53,083	55,304
Total Intragovernmental Liabilities	$ 218,404	$ 235,659
Accounts Payable (Note 12)	$ 588,918	$ 577,905
Military Retirement and Other Federal Employment Benefits (Note 17)	220,332	217,518
Other Liabilities (Note 15 and Note 16)	267,970	251,517
TOTAL LIABILITIES	$ 1,295,624	$ 1,282,599
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	11,364	20,380
Cumulative Results of Operations - Other Funds	27,105,175	28,053,670
TOTAL NET POSITION	$ 27,116,539	$ 28,074,050
TOTAL LIABILITIES AND NET POSITION	$ 28,412,163	$ 29,356,649

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 28,053,670	$ 28,859,924
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	28,053,670	28,859,924
Budgetary Financing Sources:		
Appropriations used	54,468	81,967
Transfers-in/out without reimbursement	108,705	(514,850)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(10,337)	34,967
Imputed financing from costs absorbed by others	165,476	180,027
Other (+/-)	145,282	465,112
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	463,594	247,223
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	1,412,089	1,053,477
Net Change	(948,495)	(806,254)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	27,105,175	28,053,670
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 20,380	$ 36,975
Beginning balances, as adjusted	20,380	36,975
Budgetary Financing Sources:		
Appropriations received	0	65,372
Appropriations transferred-in/out	45,452	0
Appropriations used	(54,468)	(81,967)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	(9,016)	(16,595)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	11,364	20,380
Net Position	27,116,539	28,074,050

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Combined	2012 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	106,559	555,328
Unobligated balance brought forward, Oct 1, as adjusted,	$ 106,559	$ 555,328
Recoveries of prior year unpaid obligations	13,581	38,915
Other changes in unobligated balance (+ or -)	95,124	(553,765)
Unobligated balance from prior year budget authority, net	215,264	40,478
Appropriations (discretionary and mandatory)	45,452	0
Contract Authority (discretionary and mandatory)	6,478,609	7,559,690
Spending Authority from offsetting collections	4,227,072	4,842,419
Total Budgetary Resources	10,966,397	12,442,587
Status of Budgetary Resources:		
Obligations Incurred	10,421,174	12,336,028
Unobligated balance, end of year		
Apportioned	545,223	106,559
Total unobligated balance, end of year	545,223	106,559
Total Budgetary Resources	10,966,397	12,442,587
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	7,060,232	7,364,314
Obligations incurred	10,421,174	12,336,028
Outlays (gross) (-)	(10,955,364)	(12,601,195)
Recoveries of prior year unpaid obligations (-)	(13,581)	(38,915)
Unpaid obligations, end of year	6,512,461	7,060,232
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(3,113,433)	(3,619,244)
Change in uncollected pymts, Fed sources (+ or -)	163,032	505,811
Uncollected pymts, Fed sources, end of year (-)	(2,950,401)	(3,113,433)
Obligated balance, start of year (+ or -)	3,946,799	3,745,070
3200 Obligated balance, end of year (+ or -)	3,562,060	3,946,799

Department of Defense
Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Combined	2012 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	10,751,133	12,402,109
Actual offsetting collections (discretionary and mandatory) (-)	(10,974,997)	(12,936,282)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	163,032	505,811
Budget Authority, net (discretionary and mandatory)	(60,832)	(28,362)
Outlays, gross (discretionary and mandatory)	10,955,364	12,601,195
Actual offsetting collections (discretionary and mandatory) (-)	(10,974,997)	(12,936,282)
Outlays, net (discretionary and mandatory)	(19,633)	(335,087)
Agency Outlays, net (discretionary and mandatory)	(19,633)	(335,087)

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Dedicated Collections	2013 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 28,053,670
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	28,053,670
Budgetary Financing Sources:		
Appropriations used	0	54,468
Transfers-in/out without reimbursement	0	108,705
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	(10,337)
Imputed financing from costs absorbed by others	0	165,476
Other (+/-)	0	145,282
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	463,594
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	1,412,089
Net Change	0	(948,495)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	0	27,105,175
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 20,380
Beginning balances, as adjusted	0	20,380
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out	0	45,452
Appropriations used	0	(54,468)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(9,016)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	11,364
Net Position	0	27,116,539

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Eliminations	2013 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 28,053,670
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	28,053,670
Budgetary Financing Sources:		
Appropriations used	0	54,468
Transfers-in/out without reimbursement	0	108,705
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	(10,337)
Imputed financing from costs absorbed by others	0	165,476
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Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	463,594
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	1,412,089
Net Change	0	(948,495)
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UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 20,380
Beginning balances, as adjusted	0	20,380
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out	0	45,452
Appropriations used	0	(54,468)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(9,016)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	11,364
Net Position	0	27,116,539

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2012 Dedicated Collections	2012 All Other Funds
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 28,859,924
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	28,859,924
Budgetary Financing Sources:		
Appropriations used	0	81,967
Transfers-in/out without reimbursement	0	(514,850)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	34,967
Imputed financing from costs absorbed by others	0	180,027
Other (+/-)	0	465,112
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	247,223
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	1,053,477
Net Change	0	(806,254)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	0	28,053,670
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 36,975
Beginning balances, as adjusted	0	36,975
Budgetary Financing Sources:		
Appropriations received	0	65,372
Appropriations transferred-in/out	0	0
Appropriations used	0	(81,967)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(16,595)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	20,380
Net Position	0	28,074,050

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2012 Eliminations	2012 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 0	$ 28,859,924
3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	0	28,859,924
Budgetary Financing Sources:		
Appropriations used	0	81,967
Transfers-in/out without reimbursement	0	(514,850)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	0	34,967
Imputed financing from costs absorbed by others	0	180,027
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Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	247,223
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	0	1,053,477
Net Change	0	(806,254)
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	0	28,053,670
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 0	$ 36,975
Beginning balances, as adjusted	0	36,975
Budgetary Financing Sources:		
Appropriations received	0	65,372
Appropriations transferred-in/out	0	0
Appropriations used	0	(81,967)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	0	(16,595)
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	0	20,380
Net Position	0	28,074,050

Department of Defense
Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	2013 Consolidated	2012 Consolidated
Program Costs		
Gross Costs	$ 11,019,305	$ 12,456,829
Operations, Readiness & Support	11,019,305	12,456,829
(Less: Earned Revenue)	(9,607,216)	(11,403,352)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	1,412,089	1,053,477
Net Program Costs Including Assumption Changes	1,412,089	1,053,477
Net Cost of Operations	$ 1,412,089	$ 1,053,477

Working Capital Fund

Fiscal Year 2013

Notes to the Principal Statements

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

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

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

1.B. Mission of the Reporting Entity

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

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

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

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

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

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

1.C. Appropriations and Funds

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

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

1.D. Basis of Accounting

The AFWCF financial management systems are unable to meet all full accrual accounting requirements. Many of the AFWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not

designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of AFWCF's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

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

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

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While AFWCF is unable to fully reconcile intragovernmental transactions with all federal agencies, AFWCF is able to reconcile balances

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

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

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

1.J. Cash and Other Monetary Assets

Not applicable.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The AFWCF values approximately 99% of its resale inventory using the moving average cost method and reports the remaining 1% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (PL 104-208). The AFWCF is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

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

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

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

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

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

Not applicable.

1.O. General Property, Plant and Equipment

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The AFWCF has not fully implemented the threshold for real property; therefore, DoD is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property.

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

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

Not applicable.

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

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

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

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation that would generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the [Component/Department] Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivables are likely present in the [Component/Department] financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Not applicable.

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not applicable.

Note 2. Nonentity Assets

As of September 30	2013	2012
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	$ 0	$ 0
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	79	155
C. Other Assets	0	0
D. Total Nonfederal Assets	$ 79	$ 155
3. Total Nonentity Assets	$ 79	$ 155
4. Total Entity Assets	$ 28,412,084	$ 29,356,494
5. Total Assets	$ 28,412,163	$ 29,356,649

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

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

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

Note 3. Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2013	2012
1. Fund Balances		
A. Appropriated Funds	$ 0	$ 0
B. Revolving Funds	730,327	556,537
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	$ 730,327	$ 556,537
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	$ 1,457,607	$ 811,253
B. Fund Balance per AFWCF	730,327	556,537
3. Reconciling Amount	$ 727,280	$ 254,716

The reconciling amount represents $727.3 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2013	2012
1. Unobligated Balance		
A. Available	$ 545,223	$ 106,559
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	$ 6,512,461	$ 7,060,232
3. Nonbudgetary FBWT	$ 0	$ 0
4. NonFBWT Budgetary Accounts	$ (6,327,357)	$ (6,610,254)
5. Total	$ 730,327	$ 556,537

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

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

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

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT. The AFWCF currently does not have a Nonbudgetary FBWT.

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

Note 4. Investments and Related Interest

The AFWCF has no Investments and Related Interest.

Note 5. Accounts Receivable

As of September 30	2013		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
ts in thousands)			
1. Intragovernmental Receivables	$ 541,912	N/A	$ 541,912
2. Nonfederal Receivables (From the Public)	$ 9,197	$ (7,146)	$ 2,051
3. Total Accounts Receivable	$ 551,109	$ (7,146)	$ 543,963

As of September 30	2012		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 778,172	N/A	$ 778,172
2. Nonfederal Receivables (From the Public)	$ 12,452	$ (7,660)	$ 4,792
3. Total Accounts Receivable	$ 790,624	$ (7,660)	$ 782,964

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

Note 6. Other Assets

As of September 30	2013	2012
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 31	$ 28
B. Other Assets	145,656	167,711
C. Total Intragovernmental Other Assets	$ 145,687	$ 167,739
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 177,513	$ 121,079
B. Advances and Prepayments	6,745	118,754
C. Other Assets (With the Public)	620	158
D. Total Nonfederal Other Assets	$ 184,878	$ 239,991
3. Total Other Assets	$ 330,565	$ 407,730

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

The balance in Outstanding Contract Financing Payments includes $152.9 million in contract financing payments and an additional $24.6 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

The $145.7 million in Intragovernmental Other Assets - Other Assets and the $620.1 thousand balance in Nonfederal Other Assets – Other Assets (With the Public) are comprised of Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

Note 7. Cash and Other Monetary Assets

The AFWCF has no Cash and Other Monetary Assets.

Note 8. Direct Loan and Loan Guarantees

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

Note 9. Inventory and Related Property

As of September 30	2013	2012
(Amounts in thousands)		
1. Inventory, Net	$ 25,132,201	$ 25,957,956
2. Operating Materiel & Supplies, Net	141,223	141,642
3. Stockpile Materiel, Net	0	0
4. Total	$ 25,273,424	$ 26,099,598

Inventory, Net

As of September 30	2013			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
1. Inventory Categories				
A. Available and Purchased for Resale	$ 14,728,624	$ (41,346)	14,687,278	MAC,FIFO,LAC
B. Held for Repair	14,330,065	(3,902,267)	10,427,798	LAC,MAC
C. Excess, Obsolete, and Unserviceable	40,292	(40,292)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	17,125	0	17,125	AC
F. Total	$ 29,116,106	$ (3,983,905)	25,132,201	

As of September 30	2012			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
1. Inventory Categories				
A. Available and Purchased for Resale	$ 15,907,341	$ (23,689)	15,883,652	LAC,MAC
B. Held for Repair	13,994,240	(3,964,574)	10,029,666	LAC,MAC
C. Excess, Obsolete, and Unserviceable	53,822	(53,822)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	44,638	0	44,638	AC
F. Total	$ 30,000,041	$ (4,042,085)	25,957,956	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other
MAC = Moving Average Cost

Restrictions

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel and nuclear related spare parts.

General Composition of Inventory

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Definitions

Inventory Available and Purchased for Resale includes consumable and reparable parts owned and managed by AFWCF.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because AFWCF often relies on weapon systems and machinery no longer in production, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of obsolete, excess to requirements, or items that cannot be economically repaired and are awaiting disposal.

Work in Process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in Process also includes the value of finished products or completed services pending the submission of bills to the customer.

Operating Materiel and Supplies, Net

As of September 30	2013			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 141,223	$ 0	$ 141,223	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	$ 141,223	$ 0	$ 141,223	

As of September 30	2012			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
1. OM&S Categories				
A. Held for Use	$ 141,642	$ 0	$ 141,642	SP, LAC, MAC
B. Held for Repair	0	0	0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable	0	0	0	NRV
D. Total	$ 141,642	$ 0	$ 141,642	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other
MAC = Moving Average Cost

General Composition of Operating Materiel and Supplies

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

Restrictions

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

Definition

Held for Use includes consumable parts and supplies.

Stockpile Materiel, Net

As of September 30	2013			
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
(Amounts in thousands)				
1. Stockpile Materiel Categories				
A. Held for Sale	$ 0	$ 0	$ 0	AC, LCM
B. Held in Reserve for Future Sale	0	0	0	AC, LCM
C. Total	$ 0	$ 0	$ 0	

As of September 30	2012			
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
(Amounts in thousands)				
1. Stockpile Materiel Categories				
A. Held for Sale	$ 0	$ 0	$ 0	AC, LCM
B. Held in Reserve for Future Sale	0	0	0	AC, LCM
C. Total	$ 0	$ 0	$ 0	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
LCM = Lower of Cost or Market
O = Other
MAC = Moving Average Cost

The AFWCF has no Stockpile Materials.

Note 10. General PP&E, Net

As of September 30	2013				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,542,038	$ (1,025,448)	516,590
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,166,183	(1,082,579)	83,604
E. General Equipment	S/L	5 or 10	3,103,028	(2,177,793)	925,235
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	8,455	N/A	8,455
J. Other			0	0	0
K. Total General PP&E			$ 5,819,704	$ (4,285,820)	$ 1,533,884

As of September 30	2012				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	1,241,503	$ (726,062)	515,441
C. Leasehold Improvements	S/L	lease term	0	0	0

D. Software	S/L	2-5 Or 10	1,160,024	(1,055,863)	104,161
E. General Equipment	S/L	5 or 10	2,946,622	(2,067,332)	879,290
F. Military Equipment	S/L	Various	0	0	0
G. Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
H. Assets Under Capital Lease	S/L	lease term	0	0	0
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	10,928	N/A	10,928
J. Other			0	0	0
K. Total General PP&E			$ 5,359,077	$ (3,849,257)	$ 1,509,820

Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Air Force Working Capital Fund

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	0	0	0	0
Archeological Sites	Each	0	0	0	0
Museum Collection Items (Objects, Not Including Fine Art)	Each	0	0	0	0
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	0	0	0	0
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	0	0	0	0
9130	Licensed and Permitted Land	0	0	0	0
9140	Public Land	0	0	0	0
9210	Land Easement	0	0	0	0
9220	In-leased Land	0	0	0	0
9230	Foreign Land	0	0	0	0
Grand Total					0
TOTAL - All Other Lands					0
TOTAL – Stewardship Lands					0

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

Assets Under Capital Lease

As of September 30 (Amounts in thousands)	2013	2012
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ 0	$ 0
B. Equipment	0	0
C. Accumulated Amortization	0	0
D. Total Capital Leases	$ 0	$ 0

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	2013	2012
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Debt	0	0
C. Other	44,651	48,144
D. Total Intragovernmental Liabilities	$ 44,651	$ 48,144
2. Nonfederal Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Military Retirement and Other Federal Employment Benefits	220,332	217,518
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	$ 220,332	$ 217,518
3. Total Liabilities Not Covered by Budgetary Resources	$ 264,983	$ 265,662
4. Total Liabilities Covered by Budgetary Resources	$ 1,030,641	$ 1,016,937
5. Total Liabilities	$ 1,295,624	$ 1,282,599

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

The $44.7 million in Intragovernmental Liabilities - Other Liabilities is comprised of the portion of the total Air Force Federal Employee's Compensation Act (FECA) liability allocated to the AFWCF.

Military Retirement and Other Federal Employment Benefits consists of FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2013		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 165,321	$ N/A	$ 165,321
2. Nonfederal Payables (to the Public)	588,918	0	588,918
3. Total	$ 754,239	$ 0	$ 754,239

As of September 30	2012		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
1. Intragovernmental Payables	$ 180,335	$ N/A	$ 180,355
2. Nonfederal Payables (to the Public)	577,905	0	577,905
3. Total	$ 758,260	$ 0	$ 758,260

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

Note 13. Debt

The AFWCF has no Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

The AFWCF has no Environmental Liabilities and Disposal Liabilities.

Note 15. Other Liabilities

As of September 30	2013		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	20,367	24,284	44,651
F. Custodial Liabilities	79	0	79
G. Employer Contribution and Payroll Taxes Payable	8,353	0	8,353
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 28,799	$ 24,284	$ 53,083

2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 129,665	$ 0	$ 129,665
B. Advances from Others	64,588	0	64,588
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	407	0	407
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	24,558	24,558
L. Other Liabilities	48,752	0	48,752
M. Total Nonfederal Other Liabilities	$ 243,412	$ 24,558	$ 267,970
3. Total Other Liabilities	$ 272,211	$ 48,842	$ 321,053

As of September 30	2012		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 0	$ 0	$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0

E. FECA Reimbursement to the Department of Labor	21,301	26,842	48,143
F. Custodial Liabilities	155	0	155
G. Employer Contribution and Payroll Taxes Payable	7,006	0	7,006
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	$ 28,462	$ 26,842	$ 55,304
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 137,450	$ 0	$ 137,450
B. Advances from Others	46,753	0	46,753
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	827	0	827
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	18,510	18,510
L. Other Liabilities	47,977	0	47,977
M. Total Nonfederal Other Liabilities	$ 233,007	$ 18,510	$ 251,517
3. Total Other Liabilities	$ 261,469	$ 45,352	$ 306,821

The $48.8 million balance in the Nonfederal Other Liabilities – Other Liabilities primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign governments provide funds to buy their respective share of inventory that is owned and managed by the Air Force under a Cooperative Logistics Supply Support Agreement (CLSSA).

Contingent liabilities include $24.6 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. It is DoD policy that these rights should not be misconstrued as rights of ownership. The AFWCF is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the AFWCF has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

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

Capital Lease Liability

As of September 30	2013			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2013	$ 0	$ 0	$ 0	$ 0
B. 2014	0	0	0	0
C. 2015	0	0	0	0
D. 2016	0	0	0	0
E. 2017	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	$ 0	$ 0	$ 0	$ 0
H. Less: Imputed Interest Executory Costs	0	0	0	0
I. Net Capital Lease Liability	$ 0	$ 0	$ 0	$ 0

2. Capital Lease Liabilities Covered by Budgetary Resources	$ 0
3. Capital Lease Liabilities Not Covered by Budgetary Resources	$ 0

As of September 30	2012			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Future Payments Due				
A. 2012	$ 0	$ 0	$ 0	$ 0
B. 2013	0	0	0	0
C. 2014	0	0	0	0
D. 2015	0	0	0	0
E. 2016	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	$ 0	$ 0	$ 0	$ 0
H. Less: Imputed Interest Executory Costs	0	0	0	0
I. Net Capital Lease Liability	$ 0	$ 0	$ 0	$ 0

2. Capital Lease Liabilities Covered by Budgetary Resources	$ 0
3. Capital Lease Liabilities Not Covered by Budgetary Resources	$ 0

Note 16. Commitments and Contingencies

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

The AFWCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, AFWCF has limited automated system processes by which it captures or assesses these potential liabilities; therefore, no associated liabilities are recognized or disclosed.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2013		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 220,332	$ 0	$ 220,332
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 220,332	$ 0	$ 220,332
3. Total Military Retirement and Other Federal Employment Benefits:	$ 220,332	$ 0	$ 220,332

Federal Employees Compensation Act (FECA)

The AFWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and is updated at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2013
2.73% in Year 1
3.13% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge

back year (CBY) 2013 were also used to adjust the methodology's historical payments to current year constant dollars.

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

CBY	COLA	CPIM
2013	N/A	N/A
2014	1.67%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018+ and thereafter	2.20%	3.82%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2013 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three years.

As of September 30	2012		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)(Amounts in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 217,518	$ 0	$ 217,518
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 217,518	$ 0	$ 217,518
3. Total Military Retirement and Other Federal Employment Benefits:	$ 217,518	$ 0	$ 217,518

(Amounts in thousands)As of September 30	2013				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
(Amounts in thousands)					
Beginning Actuarial Liability	$ 0	0	0	0	0
Plus Expenses:					
Normal Cost	0	0	0	0	0
Interest Cost	0	0	0	0	0
Plan Amendments	0	0	0	0	0
Experience Losses (Gains)	0	0	0	0	0
Other factors	0	0	0	0	0
Subtotal: Expenses before Losses (Gains) from Actuarial Assumption Changes	0	0	0	0	0
Actuarial losses/ (gains)/ due to:					
Changes in trend assumptions	0	0	0	0	0
Changes in assumptions other than trend	0	0	0	0	0
Subtotal: Losses (Gains) from Actuarial Assumption Changes	0	0	0	0	0
Total Expenses	$ 0	0	0	0	0
Less Benefit Outlays	0	0	0	0	0
Total Changes in Actuarial Liability	$ 0	0	0	0	0
Ending Actuarial Liability	$ 0	0	0	0	0

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2013	2012
(Amounts in thousands)		
Military Retirement Benefits		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Civil Works		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0

Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,437,966	$ 1,395,194
B. Nonfederal Cost	9,581,339	11,061,635
C. Total Cost	$ 11,019,3055	$ 12,456,829
2. Earned Revenue		
A. Intragovernmental Revenue	$ (9,313,554)	$ (11,096,564)
B. Nonfederal Revenue	(293,662)	(306,788)
C. Total Revenue	$ (9,607,216)	$ (11,403,352)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 1,412,089	$ 1,053,477
Procurement		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Research, Development, Test & Evaluation		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0

Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	$ 0	$ 0
B. Nonfederal Cost	0	0
C. Total Cost	$ 0	$ 0
2. Earned Revenue		
A. Intragovernmental Revenue	$ 0	$ 0
B. Nonfederal Revenue	0	0
C. Total Revenue	$ 0	$ 0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Total Net Cost	$ 0	$ 0
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,437,966	$ 1,395,194
B. Nonfederal Cost	9,581,339	11,061,635
C. Total Cost	$ 11,019,305	$ 12,456,829
2. Earned Revenue		
A. Intragovernmental Revenue	$ (9,313,554)	$ (11,096,564)
B. Nonfederal Revenue	(293,662)	(306,788)
C. Total Revenue	$ (9,607,216)	$ (11,403,352)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
4. Costs Not Assigned to Programs	$ 0	$ 0
5. (Less: Earned Revenues) Not Attributed to Programs	$ 0	$ 0
Total Net Cost	$ 1,412,089	$ 1,053,477

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

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

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

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

The AFWCF records transactions on an accrual basis. The AFWCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by generally accepted accounting principles. These estimates reverse as actual costs or revenues are recorded.

Note 19. Disclosures Related to the Statement of Changes in Net Position

The $145.3 million in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations on the Statement of Budgetary Resources (SBR). The $45.5 million difference is due to the inclusion of the liquidation of contract authority for the receipt of the appropriation, being recorded on the same line as the appropriation received, thus reducing the Appropriations (Discretionary and Mandatory) line on the SBR to zero. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources for further information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2013	2012
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 5,635,924	$ 6,216,080
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The AFWCF reported reimbursable obligations of $10.4 billion in category B.

The SBR includes intraentity transactions because the statements are presented as combined.

Appropriations on the SBR, does not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP). The $45.5 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2013	2012
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
1. Obligations incurred	$ 10,421,174	$ 12,336,028
2. Less: Spending authority from offsetting collections and recoveries (-)	(10,825,546)	(12,469,386)
3. Obligations net of offsetting collections and recoveries	$ (404,372)	$ (133,358)
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	$ (404,372)	$ (133,358)
Other Resources:		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(10,337)	34,967
8. Imputed financing from costs absorbed by others	165,476	180,027
9. Other (+/-)	145,282	465,112
10. Net other resources used to finance activities	$ 300,421	$ 680,106
11. Total resources used to finance activities	$ (103,951)	$ 546,748
Resources Used to Finance Items not Part of the Net Cost of Operations:		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
12a. Undelivered Orders (-)	$ 580,156	$ 213,648
12b. Unfilled Customer Orders	106,229	(308,865)
13. Resources that fund expenses recognized in prior Periods (-)	(3,498)	(8,934)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
15. Resources that finance the acquisition of assets (-)	(4,956,399)	(5,696,852)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0	0
16b. Other (+/-)	(134,945)	(500,080)
17. Total resources used to finance items not part of the Net Cost of Operations	$ (4,408,457)	$ (6,301,083)
18. Total resources used to finance the Net Cost of Operations	$ (4,512,408)	$ (5,754,335)

As of September 30	2013	2012
(Amounts in thousands)		
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	$ 0	$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (-)	3,185	7,840
23. Other (+/-)	2,814	3,137
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 5,999	$ 10,977
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	$ 180,051	$ 168,796
26. Revaluation of assets or liabilities (+/-)	1,740,478	2,184,928
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	0
27b. Cost of Goods Sold	8,257,100	9,190,484
27c. Operating Material and Supplies Used	1,676	2,708
27d. Other	(4,260,807)	(4,750,081)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 5,918,498	$ 6,796,835
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 5,924,497	$ 6,807,812
30. Net Cost of Operations	$ 5,924,497	$ 6,807,812

Due to the AFWCF's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency.

A $12.1 million adjustment was made to the Resources That Finance the Acquisition of Assets in order to align the note schedule with the amount reported on the Statement of Net Cost.

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

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations

- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities, Other, and Resources Used to Finance Items not Part of the Net Cost of Operations, Other, is comprised of other gains and losses totaling $145.3 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Components Requiring or Generating Resources in Future Period, Other, in the prior year column, represents the change in the Federal Employees Compensation Act (FECA) unfunded liability.

Components not Requiring or Generating Resources, Other, is comprised of $4.3 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

Note 22. Disclosures Related to Incidental Custodial Collections

The AFWCF collected $46,100 of incidental custodial revenues generated primarily from non-entity interest, penalties and administrative fees collected for out-of-service debts. These funds are not available for use by AFWCF. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

Note 23. Earmarked Funds

AFWCF has no Earmarked Funds.

Note 24. Fiduciary Activities

AFWCF has no Fiduciary Activities.

Note 25. Other Disclosures

AFWCF has no other disclosures.

Note 26. Restatements

The Working Capital Fund has no restatements.

Working Capital Fund

Fiscal Year 2013

Required Supplementary Information

Department of Defense
Air Force Working Capital Fund
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2013 and 2012
($ in Thousands)

	Operations, Readiness & Support	2013 Combined	2012 Combined
Budgetary Resources:			
Unobligated balance brought for, October 1	106,559	106,559	555,328
Unobligated balance brought forward, October 1, as adjusted	106,559	106,559	555,328
Recoveries of prior year unpaid obligations	13,581	13,581	38,915
Other changes in unobligated balance (+ or -)	95,124	95,124	(553,765)
Unobligated balance from prior year budget authority, net	215,264	215,264	40,478
Appropriations (discretionary and mandatory)	45,452	45,452	0
Contract Authority (discretionary and mandatory)	6,478,610	6,478,610	7,559,690
Spending Authority from offsetting collections (discretionary and mandatory)	4,227,072	4,227,072	4,842,419
Total Budgetary Resources	$ 10,966,397	10,966,397	12,442,587
Status of Budgetary Resources:			
Obligations Incurred	10,421,174	10,421,174	12,336,028
Unobligated balance, end of year, Apportioned	545,223	545,223	106,559
Total unobligated balance, end of year	545,223	545,223	106,559
Total Budgetary Resources	$ 10,966,397	10,966,397	12,442,587
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, October 1 (gross)	7,060,232	7,060,232	7,364,314
Obligations incurred	10,421,174	10,421,174	12,336,028
Outlays (gross) (-)	(10,955,364)	(10,955,364)	(12,601,195)
Recoveries of prior year unpaid obligations (-)	(13,581)	(13,581)	(38,915)
Unpaid obligations, end of year	$ 6,512,461	6,512,461	7,060,232
Uncollected Payments:			
Uncollected pymts, Fed sources, brought forward, Oct. 1 (-)	(3,113,433)	(3,113,433)	(3,619,244)
Change in uncollected pymts, Fed sources (+ or -)	163,031	163,031	505,811
Uncollected pymts, Fed sources, end of year (-)	(2,950,401)	(2,950,401)	(3,113,433)
Obligated balance, start of year (+ or -)	3,946,799	3,946,799	3,745,070
3200 Obligated balance, end of year (+ or -)	$ 3,562,060	3,562,060	3,946,799
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	10,751,133	10,751,133	12,402,109
Actual offsetting collections (discretionary and mandatory) (-)	(10,974,997)	(10,974,997)	(12,936,282)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	163,031	163,031	505,811
Budget Authority, net (discretionary and mandatory)	$ (60,833)	(60,833)	(28,362)
Outlays, gross (discretionary and mandatory)	10,955,364	10,955,364	12,601,195
Actual offsetting collections (discretionary and mandatory) (-)	(10,974,997)	(10,974,997)	(12,936,282)
Outlays, net (discretionary and mandatory)	(19,633)	(19,633)	(335,087)
Agency Outlays, net (discretionary and mandatory)	$ (19,633)	(19,663)	(335,087)

Working Capital Fund

Fiscal Year 2013

Audit Opinion

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

December 9, 2013

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

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-017)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying Air Force Working Capital Fund Consolidated Balance Sheet as of September 30, 2013 and 2012, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and notes on the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the basic statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin 14-02,

"Audit Requirements for Federal Financial Statements," October 21, 2013. Based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that the Air Force Working Capital Fund FY 2013 and FY 2012 Basic Financial Statements would not substantially conform to U.S. GAAP and that Air Force financial management and feeder systems were unable to adequately support material amounts on the basic statements as of September 30, 2013. Accordingly, we did not perform all the auditing procedures required by U.S. generally accepted government auditing standards and OMB Bulletin 14-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force Working Capital Fund FY 2013 and FY 2012 Basic Statements. Thus, the basic statements may have undetected misstatements that are both material and pervasive.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic statements. The Air Force presented the Management's Discussion and Analysis; Required Supplementary Stewardship Information; Required Supplementary Information; and Other Information for additional analysis as part of the annual financial statements—these elements are not required parts of the basic statements. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A 136 (Revised), "Financial Reporting Requirements,"

October 21, 2013 and DoD 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013. However, we do not express an opinion on the information.

Report on Other Legal and Regulatory Requirements, Contracts, and Grant Agreements

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

See the attachment for additional details on internal controls and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to Air Force officials. Air Force officials have expressed their continuing commitment to addressing the problems this report outlines. Management did not provide comments on a draft of this report.

This report is intended solely for the information and use of Air Force management, the DoD Office of Inspector General, OMB, the U.S. Government Accountability Office, and Congress, and is not intended to be used, and should not be used, by anyone other than these specified parties.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

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

Management Responsibilities

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

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting; however, the following material weaknesses and significant deficiencies could adversely affect the Air Force's financial operations.

Previously Identified Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Management acknowledged that previously identified material weaknesses continued to exist in the following areas.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial law and other requirements, are consistent with the purpose authorized, and are recorded in accordance with Federal accounting standards. Statement of Federal Financial Accounting Concepts No. 1 also requires that financial management system controls ensure proper safeguards for assets to deter fraud, waste, and abuse and provide adequate support for performance measurement information. The Assistant Secretary of the Air Force

(Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did not allow it to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, the Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Inventory. The Air Force supply management systems did not provide sufficient audit trails to confirm and value the in-transit inventory included as part of inventory held for sale on the Consolidated Balance Sheet.

Operating Materials and Supplies. The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to record an expense at the time a user consumes Operating Materials and Supplies. The Air Force did not record cost of goods sold and work-in-process in accordance with this statement. Additionally, uncertainties existed regarding the existence and completeness of the quantities used to derive the balances reported in the financial statements for Operating Materials and Supplies inventory.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force could not verify General Property, Plant, and Equipment values in accordance with this statement. In addition, the General Property, Plant, and Equipment line item on the Balance Sheet did not include all Government-furnished equipment, with values exceeding the capitalization threshold, in the possession of contractors.

Subsidiary Ledgers and Special Journals. Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts. Air Force and Defense Finance and Accounting Service personnel did not perform reconciliations and system validations to verify the accuracy

of accounts receivable from Foreign Military Sales, progress payments to contractors, and accounts payable from the Consolidated Sustainment Activity Group Supply Division.

Intragovernmental Eliminations. The Air Force could not accurately identify all intragovernmental transactions by customer. Seller entities within DoD provided summary balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the Air Force adjusted its buyer-side records to recognize unrecorded costs and accounts payable.

Accounting Entries. The Air Force acknowledges that it continued to make material adjustments for financial reporting that were not supported by detailed transactions because of its inability to properly identify intragovernmental trading partner transactions and the deficiencies described above.

Previously Identified Significant Deficiencies

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

Accounts Receivable. The Air Force did not have assurance on the Accounts Receivable financial statement line item due to reportable conditions in the areas of intra-governmental trading partner eliminations, foreign military sales, undistributed collections, supporting documentation, and completeness of the Tri-Annual Review.

Accounts Payable. The Air Force did not have assurance on the Accounts Payable financial statement line item because there were reportable conditions in the areas of intra-governmental trading partner eliminations, accruals, supporting documentation, and the completeness of the Tri-Annual Review. These deficiencies result in an inability to properly reconcile and support the validity of Accounts Payable.

Internal control analysis we conducted as part of our prior audits would not necessarily disclose all material weakness and significant deficiencies. The Air Force reported the above material weaknesses in its FY 2013 Statement of Assurance, except for Operating Materials and Supplies; General Property, Plant, and Equipment; Subsidiary Ledgers and Special Journals; Intergovernmental Eliminations; and Other Accounting Entries.

Report on Compliance With Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

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

Antideficiency Act

Section 1341, title 31, United States Code (31. U.S.C. § 1341[1990]) prohibits the Air Force and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds. Additionally, neither the Air Force nor its agents may contract or obligate Air Force Funds before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all

relevant facts and a statement of actions taken. During FY 2013, the Air Force Working Capital Fund reported no Antideficiency Act violations.

DoD 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, limits the time from identification to reporting ADA violations to 15 months. One investigation of potential ADA violations has been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires DoD to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas where an agency is not in compliance, OMB A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The Air Force is executing a plan to meet the September 30, 2014 deadline for audit-ready Statement of Budgetary Resources. The Air Force plan states that it is deploying several large information technology systems that will not be fully deployed in time to meet the FY 2014 and FY 2017 dates. Therefore, the Air Force will rely on manual controls and legacy system enhancements to meet the FY 2014 goal. The Air Force plan states that it is continuing to evaluate policy, processes, and system enhancements for sustainability and cost effectiveness.

For FY 2013, the Air Force did not fully comply with FFMIA. The Air Force acknowledged to us on June 12 and December 9, 2013, that its financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued to exist. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2013.

Recommendations

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

"Aim High ...
EG
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fly-fight-win"

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