



U.S. AIR FORCE



ANNUAL FINANCIAL STATEMENT 2010



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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.

Table of Contents

MESSAGE FROM THE SECRETARY OF THE AIR FORCE	II
MESSAGE FROM THE ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT AND COMPTROLLER .	III
MANAGEMENT DISCUSSION AND ANALYSIS	
VISION	1
AIR FORCE IN ACTION—FY 2010	1
AIR FORCE STRUCTURE	2
AIR FORCE RESOURCES	6
AIR FORCE FINANCIAL MANAGEMENT	7
AIR FORCE GENERAL FUND	
APPROPRIATIONS	8
CURRENT AND FUTURE FINANCIAL SYSTEMS - DEFENSE ENTERPRISE ACCOUNTING AND MANAGEMENT SYSTEM	9
AIR FORCE WORKING CAPITAL FUND	
CONSOLIDATED SUSTAINMENT ACTIVITY GROUP.....	10
CONTRACT DEPOT MAINTENANCE.....	10
SUPPLY MANAGEMENT ACTIVITY GROUP-RETAIL	10
AIR FORCE WORKING CAPITAL FUND CUSTOMERS.....	11
AIR FORCE WORKING CAPITAL FUND FINANCIAL PERFORMANCE MEASURES	11
FINANCING THE FIGHT	11
FINANCIAL STATEMENTS	
GENERAL FUND	
PRINCIPAL STATEMENTS	13
NOTES TO THE PRINCIPAL STATEMENTS	19
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION	71
REQUIRED SUPPLEMENTARY INFORMATION	85
AUDIT OPINION	95
WORKING CAPITAL FUND	
PRINCIPAL STATEMENTS	105
NOTES TO THE PRINCIPAL STATEMENTS	111
REQUIRED SUPPLEMENTARY INFORMATION	139
AUDIT OPINION	141



November 2010

Message from the Secretary of the Air Force



I am pleased to present the Air Force Annual Financial Statement for Fiscal Year 2010. The report provides the financial position and results of operations that support the Air Force's mission and priorities.

As the Nation struggles with economic recovery and record budget deficits, our challenge going forward is clear: maximize the resources entrusted to us by the American people. To accomplish this, the Chief of Staff and I have provided overarching guidance to the Air Force:

- Do not over-extend the budget with more commitments than we can afford
- Concentrate on our top modernization programs, providing sufficient funding to ensure success
- Do not leave broken, underfunded programs and disconnects for future budgets
- Emphasize budgetary stability and do not break programs to fix other programs

Making difficult choices now on how to best utilize our resources will position the Air Force for success in the future.

The Air Force is also putting emphasis on achieving internal efficiencies within our budget, moving resources from our supporting tail to warfighting tooth. This is not wholly new, as in recent years we have consolidated personnel, financial management, and other functional communities, and introduced technologies and business processes that allowed us to allocate both dollars and manpower to growth areas like Intelligence, Surveillance and Reconnaissance and to reinforce the critical nuclear enterprise.

Consistent with our efforts to improve internal efficiencies, we continue to work toward audit readiness. The Air Force is standardizing data, systems, and processes that support audit readiness. Additionally, these efforts are improving the accuracy and timeliness of data at every level.

The 2010 Annual Financial Statement reflects the dedication and commitment of the Air Force to most effectively and responsibly manage our resources. In carrying out our responsibility to defend the Nation, we will continue to serve with integrity, dedication, and a commitment to excellence.

Michael B. Donley
Michael B. Donley



November 2010

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



The Air Force Annual Financial Statement for Fiscal Year 2010 provides Congress, senior defense leaders and the public with information on the financial status of the Air Force and on continuing improvements in our financial management processes, systems, and progress towards the goal of obtaining fully auditable and reliable financial statements. Air Force leadership recognizes the importance of achieving a clean audit and the value of reliable financial information for achieving broader Air Force priorities.

Over the past year, the Air Force has achieved several important milestones toward Financial Improvement and Audit Readiness (FIAR). At the end of Fiscal Year 2010, the Air Force asserted audit readiness for Budget Authority down to the major command level. This assertion was completed six months ahead of schedule. Additionally, the Air Force will assert audit readiness for Military Equipment and Fund Balance with Treasury accounts by 31 December 2010. Together, these two items represent 64 percent of Air Force total assets. Consistent with Department-wide priorities, the Air Force will concentrate in the near term on achieving auditability for those elements of the financial statements that are most useful for managing the Department of Defense.

An essential part of Air Force FIAR efforts is the initial deployment of the Defense Enterprise Accounting Management System (DEAMS), which is now the accounting system of record for Air Force units at Scott AFB, including the Air Mobility Command and US Transportation Command headquarters. During the last four months of FY2010, DEAMS was used to process over \$1.7 billion in transactions, and its capabilities continue to mature. The Air Force depends on accurate financial systems and is committed to driving successful implementation of DEAMS.

Strong stewardship of taxpayer resources requires rigorous internal controls. Improving internal controls and resolving material weaknesses is critical to good management and a clean audit. A detailed analysis of the Air Force's internal controls can be found in the "Audit Opinion" section of this statement.

The fiscal challenges facing the nation make it essential that the Air Force maximize the value of every dollar by realizing efficiencies that will reduce spending on support activities and shift resources to strengthening combat capability. Air Force financial managers are playing a critical role in leading the efficiency effort.

As the Air Force comptroller, I am grateful for the efforts of the entire Air Force financial management community as well as those of numerous partners in financial improvement across the Department of Defense.

Jamie M. Morin



U.S. AIR FORCE

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

MANAGEMENT DISCUSSION AND ANALYSIS

Vision

The United States Air Force will be a trusted and 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.

The Air Force has three core competencies: Developing Airmen, Technology-to-Warfighting and Integrating Operations. These core competencies make our six distinctive capabilities possible:

Air and Space Superiority: With it, joint forces can dominate enemy operations in all dimensions -- land, sea, air and space.

Global Attack: Because of technological advances, the Air Force can attack anywhere, anytime -- and do so quickly and with greater precision than ever before.

Rapid Global Mobility: Being able to respond quickly and decisively anywhere we're needed is key to maintaining rapid global mobility.

Precision Engagement: The essence lies in the ability to apply selective force against specific targets because the nature and variety of future contingencies demand both precise and reliable use of military power with minimal risk and collateral damage.

Information Superiority: The ability of joint force commanders to keep pace with information and incorporate it into a campaign plan is crucial.

Agile Combat Support: Deployment and sustainment are keys to successful operations and cannot be separated. Agile combat support applies to all forces, from those permanently based to contingency buildups to expeditionary forces.

Our Core Values are:

- Integrity First
- Service Before Self
- Excellence in All That We Do

Air Force in Action—FY 2010

During the past year, the Air Force has continued to support the ongoing conflicts in Afghanistan and Iraq along with our Joint and Coalition partners. We have seen a transition from operations in Iraq, to surge operations in Afghanistan. At the end of 2009 we had 9,800 Airmen in Iraq and 7,600 in Afghanistan. Today, Iraq is already down to 7,300 Airmen and continues to lower, while nearly 10,000 Airmen are on the ground in Afghanistan. Our Airmen continue to proudly serve their nation and consistently exhibit an unwavering commitment to fulfilling the needs of global Air Force operations. Our Leadership priorities relating to organizing, training and equipping Airmen to meet the needs of our nation continue to be achieved. These priorities include the following:

- Continue to Strengthen the Nuclear Enterprise
- Partner with the Joint and Coalition Team to Win Today's Fight
- Develop and Care for Airmen and Their Families
- Modernize Air and Space Inventories, Organizations and Training
- Recapture Acquisition Excellence

Continue to Strengthen the Nuclear Enterprise

FY 2010 provided opportunities to continue to strengthen the nuclear enterprise, to be used as a primary deterrent to nuclear attack. The Nuclear Triad – the ability to deliver a nuclear attack by land, by sea, or by air – remains a cornerstone of strategic deterrence, and the Air Force provides two of the three critical components for the Nation's nuclear Triad: nuclear bombers and intercontinental ballistic missiles (ICBMs). Air Force nuclear bombers, including the B-2A (Spirit) and B-52H (Stratofortress), as well as ICBMs (Minuteman III), C2 platforms, dual capable fighter aircraft, and early warning systems are all critical components of the nuclear enterprise.



Partner with the Joint and Coalition Team to Win Today's Fight

The Air Force remains committed, first and foremost, to providing the Joint warfighter Global Vigilance, Reach and Power to win today's fight and is prepared to act in both "supporting" and "supported" roles as dictated by the objectives of the Joint or combined commanders. In order to strengthen our partnerships around the globe, Airmen are working to build indigenous self-sustainable capabilities in Afghanistan and Iraq, playing a critical role in fighting terrorism and supporting the CENTCOM mission. Nearly 40,000 Airmen (Active, Guard, Reserve and Civilian) are deployed to 263 locations across the globe, including 63 locations in the Middle East. At home, the Air Force supports 130,000 Airmen who contribute to the efforts in theater through unmanned aerial surveillance, air sovereignty alert, space and intelligence operations and strategic deterrence.

Develop and Care for Airmen and Their Families

Taking care of Airmen and their families underpins the work of all Air Force core functions and is crucial to success. In this the year of the Air Force Family significant emphasis was placed on the four important areas of concern for Air Force families: affordable and available family housing, safe schools that challenge and prepare children for the future, accessible and quality medical care for Air Force families, and quality childcare. For single Airmen, who make up 40 percent of the force, the Air Force focused on their unique requirements for dormitories and (morale, welfare and recreation) services that offer fulfilling off-duty activities. The Air Force family is dynamic and diverse, made up of active duty, Reserve and Guard component members; officer and enlisted, civilians, spouses and children and that it also extends to parents, friends and community partners who support Airmen.

Modernize Air and Space Inventories, Organizations and Training

The National Defense Strategy depends on the Air Force to provide a dominant and decisive edge for Joint and Coalition military operations. Our ability as a nation to win the war in air, space and cyberspace is a fundamental principle of the Air Force. As the United States and our allies adapt and evolve to defend against an ever-changing enemy, the Air Force must maintain a comprehensive set of capabilities, organizations, personnel, and equipment--available to national leaders and Joint Force Commanders.

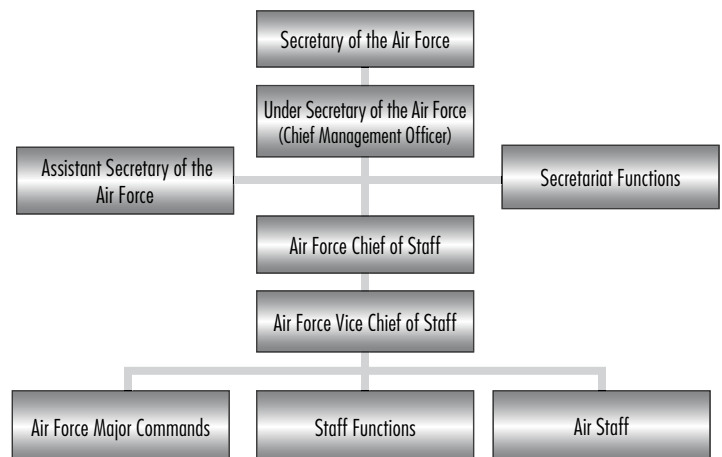
This must include not only modernizing military capabilities through the replacement of older systems, but extending the life of aging systems via refurbishment.

Recapture Acquisition Excellence

In order to meet the needs of the Air Force during unprecedented times in which security is at an all time high, special emphasis was placed on recapturing acquisition excellence, providing extended operational lifetimes of air and space systems. The two-fold approach of including acquisition excellence in the current Strategic Plan, and creating the 2009 Acquisition Improvement Plan allowed us to:

- Rebuild and Shape the Acquisition Workforce/ Revitalize the Acquisition Workforce
- Continue to Improve Acquisition Processes and Skills/Improve Requirements Definition Process/ Instill Budget and Financial Discipline/Improve Major Systems Source Selection
- Enforce Stability in Requirements, CONOPS and Funding/Establish Clear Lines of Authority and Accountability.

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. Immediately subordinate to the departmental headquarters are the Major Air Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxiliary.

Major Command Structure

Most units of the Air Force are assigned to a specific major command (MAJCOMs), led by a general officer. MAJCOMs have extensive functional responsibilities as will be shown on the following pages. MAJCOMs 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. There are different types of wings, based on objective: operational, air base, or specialized mission.

A wing may have several squadrons in more than one dependent group. Wings typically contain an operations group, a maintenance group, a 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: To fly, fight, and win... integrating capabilities across air, space, and cyberspace to deliver precise, coercive effects in defense of our nation and its global interests.

Responsibilities: ACC is the lead command for the combat Air Force. The command organizes, trains, equips and deploys combat-ready forces to support combatant commanders around the globe. Additionally, ACC is the air component to U.S. Northern, Southern and Central commands and augments the in-place air components of U.S. European and Pacific commands. ACC also provides air defense forces to North American Aerospace Defense Command. To accomplish the objectives of the National Defense Strategy, the command operates fighter; attack; bomber; intelligence, surveillance and reconnaissance; combat search and rescue; battle-management; electronic-combat and unmanned aircraft system platforms. In addition, ACC conducts information operations and provides command, control, communications and intelligence systems to theater commanders and combat forces.

Command Personnel: 144,090



Air Education and Training Command (AETC)

Mission: Develop America's Airmen today, for tomorrow. With a vision to deliver unrivaled air and space 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.

Responsibilities: Sustains the combat capability of the operational Air Force with highly trained and motivated Airmen; recalls individual ready Reservists and manages mobility and contingency tasking support for combatant commanders.

Command Personnel: 73,724



Air Mobility Command (AMC)

Mission: To 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: 129,844



Air Force Materiel Command (AFMC)

Mission: Deliver war-winning technology, acquisition support, sustainment and expeditionary capabilities to the warfighter.

Responsibilities: Conducts research, development and test and evaluation, and provides acquisition management services and logistics support necessary to keep Air Force weapon systems ready for war.

Command Personnel: 79,317



Air Force Reserve Command (AFRC)

Mission: To fly, fight and win...in air, space and cyberspace.

Responsibilities: The AFRC provides the Air Force with about 20 percent of its capability with only about 4 percent of the total Air Force budget, while spanning a wide variety of missions. It's the only Department of Defense unit that conducts fixed-wing aerial spray missions. It flies hurricane hunter missions for the National Weather Service. It is administratively responsible for the Air Force's individual mobilization augmentee program.

Command Personnel: 68,872



Air National Guard (ANG)

Mission: The Air National Guard has both a federal and state mission. The 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 utilization. Enforces federal authority, suppresses insurrection and defends the nation when called to federal service by the President, Congress or both. Units augment the Air Force in operations and exercises worldwide by direction of the chief of the National Guard Bureau, Air Staff, major commands, or joint or unified commands.

State Mission: Provide assistance during emergencies such as natural disasters and civil disturbances when required by the governor. Under state law, provides protection of life and property, and preserves peace, order and public safety and is commanded by the governors of the 50 states, Puerto Rico, Guam, the Virgin Islands and the commanding general of the District of Columbia. Each governor is represented in the state or territory chain of command by an adjutant general through a joint forces headquarters.

Command Personnel: 109,066



Air Force Space Command (AFSPC)

Mission: Provide an integrated constellation of space and cyberspace capabilities at the speed of need.

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 around the world. AFSPC oversees Air Force network operations to provide capabilities in, through, and from cyberspace; manages a global network of satellite command and control and communications, and is responsible for space system development and acquisition. It places high-value satellites in space with a variety of expendable launch systems and operates them to provide space capabilities to support combatant commanders around the clock. It provides navigation, communications, ballistic missile warning, weather and intelligence warfighting support. AFSPC operates sensors that provide direct attack warning and assessments to U.S. Strategic Command and North American Aerospace Defense Command. The command develops, acquires, fields and sustains the Air Force Satellite Control Network, Upgraded Early Warning Radar System, Defense Satellite Communications System, Wideband Global SATCOM Satellite, Defense Support Program, Space Based Infrared Systems, Global Positioning System, Milstar, Advanced Extremely High Frequency Satellite, Ground-Based Electro-Optical Deep Space Surveillance System, PAVE Phased Array Warning System radar, Delta IV and Atlas V.

Command Personnel: 46,863



Pacific Air Forces (PACAF)

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

Responsibilities: Organizes, trains, equips and maintains resources prepared to conduct a broad spectrum of air operations —from humanitarian relief to decisive combat employment — in the Department of Defense's largest area of responsibility. Conducts multinational exercises and hosts international exchange events to foster partnerships

for regional security and stability in an area covering 13 time zones and 100 million square miles, with 60 percent of the world's population, one-third of the world's economic activity and five of the six largest armed forces.

Command Personnel: 43,500



U.S. Air Forces in Europe (USAFE)

Mission: Execute the U.S. European Command mission with forward-based air power to provide forces for global operations, ensure strategic access, assure allies, deter aggression and build partnerships.

Responsibilities: Build and maintain partnerships, promote regional stability, provide forces for global operations, support combatant command missions, develop and care for Airmen and their families, sustain forward-based infrastructure, ensure strategic access to U.S. forces, assure allies and deter aggression.

Command Personnel: 36,591



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: Responsible to U.S. Special Operations Command for the readiness of Air Force special operations forces to conduct the war on terrorism and to disrupt, defeat and destroy terrorist networks that threaten the United States, its citizens and interests worldwide. The command's mission areas include shaping and stability operations; battlefield air operations; information operations; intelligence, surveillance and reconnaissance; specialized air and space mobility; precision engagement and agile combat support.

Command Personnel: 16,595



Air Force Global Strike Command (AFGSC)

Missions: Develop and provide combat-ready forces for nuclear deterrence and global strike operations... Safe, Secure, Credible, to support the President of the United States and combatant commanders.

Responsibilities: The activation of AFGSC is part of a broader, comprehensive strategy the Air Force is undertaking to ensure the Air Force has the proper focus on its critical missions that provide nuclear deterrence and global strike forces for the combatant commander, the joint team and allies.

Command Personnel: 20,000

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: Provide vital operational capabilities in support of aerial and ground search and rescue, disaster relief, a nationwide communications network, and counterdrug and homeland security missions.

Responsibilities: The Civil Air Patrol conducts 90 percent of all inland search-and-rescue missions tasked by the Air Force Rescue Coordination Center at Tyndall AFB, Fla. 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 at the middle- and high-school levels.

Personnel: 57,969



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 have the same administrative and organizational responsibilities as MAJCOMs. Examples of FOAs include the Air Force Audit Agency, Air Force Center for Environmental Excellence, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

The three vital resources to successful accomplishment of the Air Force mission are:

The Air Force is a global force, spanning facilities both in the United States and around the world, as shown below:

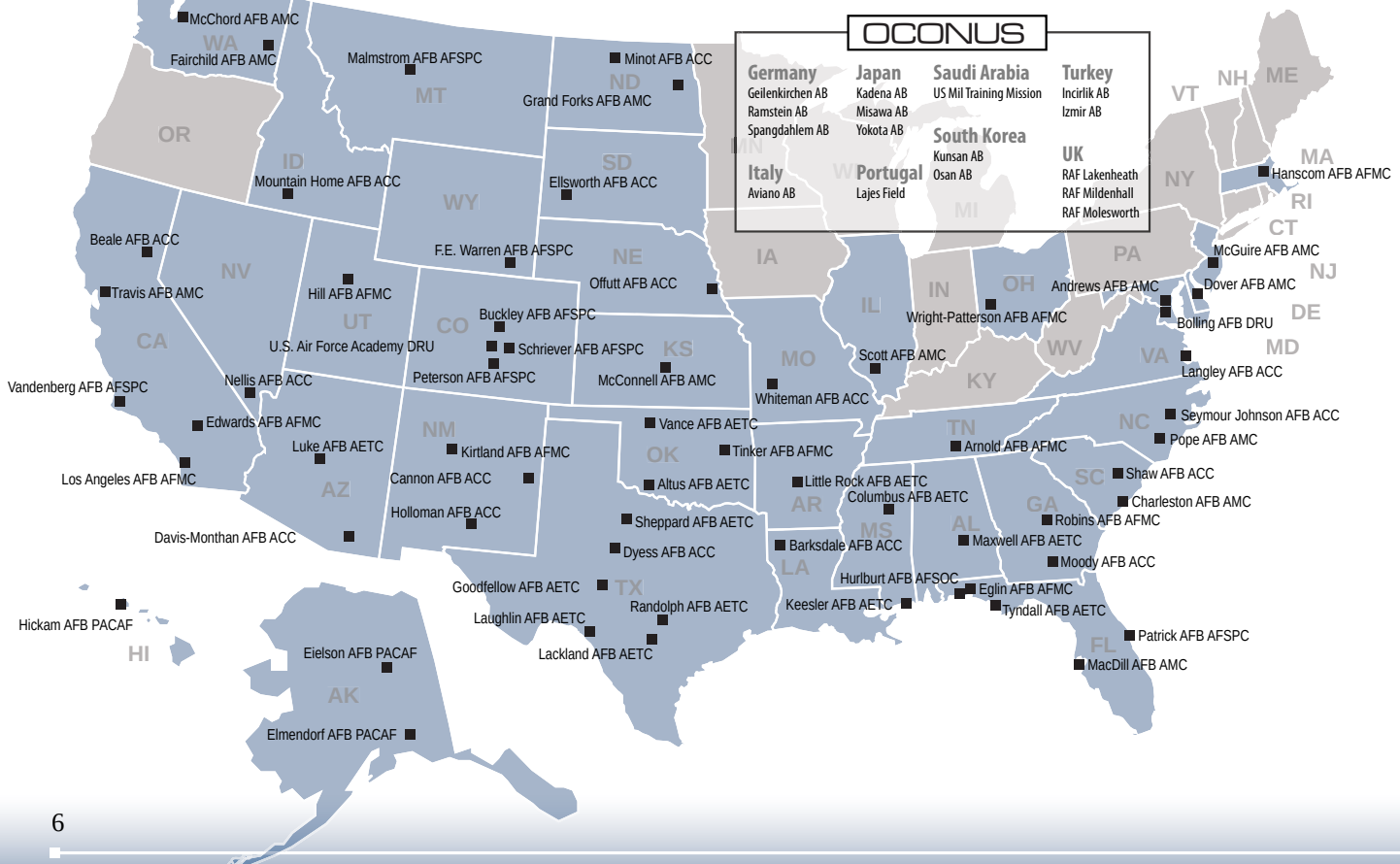
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- OCONUS: 16

The Air Force consists of over 690,000 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.

Systems: Modern weapons platforms that integrate air, space, and cyber assets into an undefeatable force.

Air Force “systems” no longer mean only “manned aircraft.” Systems also include space launch vehicles, satellites, intelligence, surveillance and reconnaissance assets, unmanned aerial systems, and the cohesive infrastructure to all Air Force systems. All Air Force systems are essential assets for Air Force people to accomplish the mission.



Air Force Financial Management

The Air Force Financial Management enterprise encompasses the hardware, software, personnel, processes, procedures, controls and data necessary to carry out its financial management responsibilities. This section focuses on the Air Force's system of internal control and emphasizes our compliance with federal laws such as the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The following examples illustrate some of the ways the Air Force is improving financial compliance and efficiency.

Chief Financial Officer (CFO) Compliance

The passage of the CFO Act of 1990 required major federal agencies to prepare auditable financial statements for the first time. In 1994 the Government Management Reform Act (GMRA) extended the CFO Act to include agency-wide reports from all major executive branch agencies, their components, and for the government as a whole. The Government Performance and Results Act (GPRA) of 1993 required agencies to systematically report on plans and performance. The FFMIA of 1996, along with the Clinger-Cohen Act of 1996 (also known as the Information Technology Management Reform Act), required that agencies install integrated systems that comply with federal accounting standards and produce auditable financial statements in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. Additionally, agencies must follow generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The Air Force Financial Improvement Plan is a roadmap to accomplish those tasks and actions necessary to obtain an unqualified audit opinion on the Air Force General Fund and Working Capital Fund financial statements. The Financial Improvement Plan is an Air Force-wide management tool meant to improve the quality of information that is needed to make sound business decisions. Quality information must be relevant and reliable. The overarching goal of the CFO Act is to provide leaders and managers, on a routine basis, quality information with which to make decisions. An unqualified audit opinion attests to the reliability of the Air Force's financial information.

Internal Controls

The Air Force operates a robust Manager's Internal Control Program in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls. This review system is fully integrated with functional program control assessments used to help ensure that the goals of the Department of the Air Force are achieved each year. In strict adherence to The Office of the Under Secretary of Defense (Comptroller) guidance, the Air Force reports a level of assurance over its internal controls in three distinct areas: Internal Control over Nonfinancial Operations (ICONO), Internal Control over Financial Reporting (ICOFR), and Internal Controls over Financial Systems (ICOFS).

Internal Controls Over Financial Reporting (ICOFR)

As directed in the Under Secretary of Defense (Comptroller) memo dated August 11, 2009, our review of ICOFR focused on the strategic prioritization of the Statement of Budgetary Resources and the existence and completeness of mission critical assets. The Air Force evaluated the effectiveness of internal controls over the key business processes which significantly affect the financial information of those priority areas. This effort involved documenting processes, developing swim-lane flowcharts, performing risk analysis, and testing and analyzing existing internal controls. Based on auditor recommendations the Air Force declared a new material weakness over the existence and completeness of Government Furnished Equipment. The Air Force also determined the material weakness over Real Property Valuation was corrected and the material weakness over Military Equipment Valuation should be down-graded to a Reportable Condition based on the completed corrective action plans. The Air Force will sustain Real Property Valuation and continue to improve the condition of Military Equipment Valuation with verification by auditors as it approaches final assertion of audit readiness during their review of AF PP&E first quarter FY11. We continue to track and report on nine existing ICOFR material weaknesses that are included in the Secretary's Annual Statement of Assurance.

Continuous Improvement

This year the Air Force completed a significant transformation of its Financial Improvement Plan (FIP) to support the Under Secretary of Defense (Comptroller) priorities of assertion of the Statement of Budgetary



Resources and the existence and completeness of mission critical assets. The FIP consolidates all the required actions, establishes action offices, determines the status, and identifies resources required to produce accurate and timely financial information. The purpose of this plan is progress toward the goal of an unqualified opinion. The FIP operates under a robust governance structure created to oversee the implementation of the plan. The Secretary of the Air Force established an Executive Steering Committee (ESC) composed of senior level Air Force leaders. This group's charter states that it will meet at least quarterly to ensure the actions incorporated in the FIP are effectively implemented. In addition to overseeing the FIP, the ESC also provides oversight to the Accountability and Financial Management Integrated Project Team (A&FM IPT). This work group is responsible for resolving the issues and monitoring actions contained in the FIP.

Progress Towards Auditability

The Under Secretary of Defense (Comptroller) has directed the Air Force to apply its limited financial improvement resources on the prioritized objectives outlined in the Financial Improvement and Audit Readiness Strategy (FIAR) Strategy. The Air Force has asserted to the audit readiness of Appropriations Received and Non-expenditure Transfers as a part of the overall Budget Authority assertion. The Air Force's Military Equipment line will be audit ready in the first quarter of FY 2011. In addition, the Air Force will make incremental progress on important assessable units of Operating Material and Supplies (OM&S) (e.g., missile motors, cruise missiles, and drones) during FY 2011.

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:

Military Personnel (MILPERS)

This appropriation provides funding for the care and feeding 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) end strength of 511,991.

Operations and Maintenance (O&M)

This appropriation funds key readiness programs critical to prepare forces for combat operations and other peacetime missions. These include day-to-day operating costs such as flying hours, depot maintenance, training, spare parts, and base operations. The FY 2010 appropriation supported 83 installations, produced over 1,200 pilots and funded approximately 1.5 million flying hours while sustaining an aircraft fleet of over 5,550 aircraft.

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 2010 program supported the purchase of up to 92 aircraft including 28 Unmanned Aerial Vehicles (UAVs) and 65 Manned Vehicles.

Research, Development, Test and Evaluation

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 Air Force's top five acquisition priorities are to:

- Execute the successful KC-X source selection and award.
- Execute the Joint Strike Fighter System Development and Demonstration (SDD) restructure and assess production reset.
- Complete the Fall Program Reviews to develop efficiency initiatives and document efficiency actions.
- Improve cost effectiveness of Advanced Extremely High Frequency (AEHF) Military Satellite Communications (MILSATCOM) satellites (AEHF), Space-Based Infrared Systems (SBIRS) and Family of Advanced Beyond Line-of-Sight Terminals (FAB-T) programs.
- Develop should cost of Evolved Expendable Launch Vehicle (EELV) with transition of should cost team into deep dive on cost structure.

Military Construction (MILCON)

This appropriation includes any construction, development, conversion, or extension of any kind carried out with respect to a military installation. Typically this appropriation applies to any projects that exceed \$1.5 million but can be applicable to projects exceeding a \$750 thousand threshold.

A sub-element of this appropriation provides funding for family housing construction programs. The FY 2010 appropriation supported 151 projects in total.

Base Realignment and Closure (BRAC)

The law authorizes the BRAC accounts to fund one-time, nonrecurring costs that are a direct result of BRAC-directed base closure or realignment actions. Some costs do not qualify for BRAC funding as costs resulting from closure or realignment. The FY 2010 BRAC program was approximately \$500 million.

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

Our systems enable us to maintain stewardship over the resources entrusted to us. DEAMS is key to our current and future ability to manage the Air Force's resources. DEAMS was launched in August 2003 as a joint initiative between the Air Force, U.S. Transportation Command (USTRANSCOM) and the Defense Finance and Accounting Service under what became the Defense Department's Business Transformation Agency. The DEAMS mission is to support the Nation's warfighters with timely, accurate, and reliable financial information, enabling more efficient and effective decision making by DoD managers. DEAMS is reengineering financial management activities with a unified enterprise architecture, standardized business rules and processes, and the first implementation of the new Standard Financial Information Structure.

The Air Force is implementing DEAMS through an incremental development approach in five spirals. Spiral 1 was a technology demonstration at Scott AFB, Illinois, involving USTRANSCOM; Headquarters, Air Mobility Command; and Air Force active duty, Air National Guard and Air Force Reserve tenant organizations on or associated with that base. Spiral 1 successfully demonstrated an initial commitment accounting capability

in 2007. Spiral 2 deployed in May 2010, expanding the General Accounting functionality to those same units along with the DFAS servicing center at Limestone, Maine. Spiral 3 will expand DEAMS capability to the remaining AMC bases, Surface Deployment and Distribution Command (SDDC) and Military Sealift Command (MSC). Spiral 4 will take DEAMS to most of the remaining Air Force major commands, saving Air Force Materiel Command and Air Force Space Command for Spiral 5 to complete DEAMS deployment. When fully fielded, DEAMS will transform financial management and set a new standard for effective and efficient stewardship of our Nation's Defense resources.

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). Supply Management provides expedited repair, replenishment and inventory control for spare parts and associated logistics support services to fulfill Air Force needs during war and peacetime. Depot Maintenance provides economical and responsive repair, overhaul and modification of aircraft, missiles, engines, other major end items and associated components.

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)

The Consolidated Sustainment Activity Group (CSAG) is an AFWCF business activity chartered for operation in FY 2009. The CSAG consolidates the Depot Maintenance Activity Group (DMAG) and the Material Support Division (MSD) from the Supply Management Activity Group into a single business enterprise. This consolidation eliminates internal transactions between MSD and DMAG, resulting in a more efficient business enterprise and customer support improvements. The mission of CSAG is supply management of reparable and 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 23,000 personnel supporting four industrial locations.

CSAG Maintenance sites include:

- Ogden Air Logistics Center (OO-ALC)
Ogden, UT
- Oklahoma City Air Logistics Center (OC-ALC)
Oklahoma City, OK
- Warner Robins Air Logistics Center (WR-ALC)
Warner Robins, 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.

Contract Depot Maintenance

The transition of contract depot maintenance from the working capital fund was completed in FY 2008. The activity ceased accepting new orders at the end of FY 2008 and is expected to close out all accounting records by the end of FY 2011. This change brings the user and provider of contract depot maintenance services closer together and removes the WCF from its current role as the "middleman."

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. 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 1.1 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 General Support Division also manages many items related to installation, maintenance, and administrative functions.

The Medical-Dental Division (MDD) manages nearly 9,000 different items for 74 Medical Treatment Facilities (MTF) worldwide. All supply and equipment requirements generated by Air Force treatment facilities are procured through this division. The Medical-Dental Division also maintains the 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 4,500 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 WCF's, other government agencies and foreign countries.

Air Force Working Capital Fund Financial Performance Measures

AFWCF assesses financial performance using the Net Operating Result (NOR) of an activity. The NOR is the difference between revenue and expenses, i.e., a bottom-line profit and loss indicator. The NOR objective of an activity group is to break even over a two year period. Prices are established to achieve this objective by recovering or returning prior year losses or gains. DoD cash management policy is to maintain the minimum cash balance necessary to meet both operational requirements and disbursements in support of the capital program.

Cash generated from operations is the primary means of maintaining adequate cash levels. Effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results. Cash levels should be maintained to cover 7 to 10 days of operational costs as well as cash adequate to meet 6 months of capital disbursements.

Financing the Fight

This nation continues to face an enemy unlike any seen throughout history. It is an elusive, well equipped, and well organized unit, capable of strategically attacking our country. As our Joint Coalition teams continue to battle, Air Force financial managers provide sound stewardship and acquisition excellence to help position our Airmen to succeed. Through strong financial reinvention our teams help to manage the development and delivery of superior air and space systems.

The U.S. Air Force is also a well equipped, and well organized unit, and it is through the efforts of the FM community that we are able to continue our duty in "financing the fight".

Resources:

"The Book 2010," *Airman*: Official magazine of the U.S. Air Force, Vol. LIV, Number 3, March 2010

Department of the Air Force. "2010 United States Air Force Posture Statement." *United States Air Force*, February 2010

Department of the Air Force. "United States Air Force FY 2011 Budget Overview." *United States Air Force*, January 2010

Secretary of the Air Force Michael Donley, "State of the Air Force - 2010" Remarks at the Air Force Association Conference and Technology Exposition, National Harbor Center at Oxon Hill, Md., Sept. 13, 2010. <http://www.af.mil/information/speeches/speech.asp?id=610>



Fiscal Year 2010

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 2010

The FY 2010 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, 2010, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2009.

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, 2010 and 2009 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, 2010 and 2009. 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, 2010 and 2009.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2010 and 2009, the status of these resources at September 30, 2010 and 2009, and the outlay of budgetary resources for the years ended September 30, 2010 and 2009.

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."



U.S. AIR FORCE

General Fund

Principal Statements

Department of Defense

Department of the Air Force

CONSOLIDATED BALANCE SHEET

As of September 30, 2010 and 2009

(\$ in Thousands)

	2010 Consolidated	2009 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 107,566,991	\$ 103,310,367
Investments (Note 4)	1,080	1,079
Accounts Receivable (Note 5)	415,493	298,953
Other Assets (Note 6)	93,765	212,245
Total Intragovernmental Assets	\$ 108,077,329	\$ 103,822,644
Cash and Other Monetary Assets (Note 7)	\$ 108,828	\$ 98,939
Accounts Receivable, Net (Note 5)	459,788	583,340
Inventory and Related Property, Net (Note 9)	49,698,922	47,588,282
General Property, Plant and Equipment, Net (Note 10)	143,539,344	149,759,237
Other Assets (Note 6)	11,565,221	11,716,176
TOTAL ASSETS	\$ 313,449,432	\$ 313,568,618
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 2,375,974	\$ 2,583,818
Other Liabilities (Note 15 & 16)	2,181,138	2,016,078
Total Intragovernmental Liabilities	\$ 4,557,112	\$ 4,599,896
Accounts Payable (Note 12)	\$ 3,719,734	\$ 3,278,316
Military Retirement and Other Federal	1,109,363	1,078,566
Employment Benefits (Note 17)		
Environmental and Disposal Liabilities (Note 14)	8,839,352	8,817,194
Other Liabilities (Note 15 and Note 16)	6,402,702	6,201,694
TOTAL LIABILITIES	\$ 24,628,263	\$ 23,975,666
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	108,832,210	105,252,117
Cumulative Results of Operations - Earmarked Funds	18,568	10,432
Cumulative Results of Operations - Other Funds	179,970,391	184,330,403
TOTAL NET POSITION	\$ 288,821,169	\$ 289,592,952
TOTAL LIABILITIES AND NET POSITION	\$ 313,449,432	\$ 313,568,618

The accompanying notes are an integral part of these financial statements.

Department of Defense

Department of the Air Force

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Consolidated	2009 Consolidated
Program Costs		
Gross Costs	\$ 170,397,052	\$ 143,926,714
Military Personnel	36,221,498	33,781,926
Operations, Readiness & Support	56,229,398	52,991,623
Procurement	46,584,073	28,276,737
Research, Development, Test & Evaluation	30,012,123	29,495,285
Family Housing & Military Construction	1,349,960	(618,857)
 (Less: Earned Revenue)	 (5,913,669)	 (6,141,434)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes	164,483,383	137,785,280
for Military Retirement Benefits		
Net Cost of Operations	\$ 164,483,383	\$ 137,785,280



U.S. AIR FORCE

General Fund

Principal Statements

Department of Defense

Department of the Air Force

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 10,432	\$ 184,330,402	\$ 0
Prior Period Adjustments:			
Corrections of errors (+/-)	0	0	0
Beginning balances, as adjusted	10,432	184,330,402	0
Budgetary Financing Sources:			
Appropriations used	0	157,921,032	0
Nonexchange revenue	1,432	0	0
Donations and forfeitures of cash and cash equivalents	10,757	0	0
Transfers-in/out without reimbursement	0	297,535	0
Other Financing Sources:			
Transfers-in/out without reimbursement (+/-)	0	202,939	0
Imputed financing from costs absorbed by others	0	857,824	0
Other (+/-)	(1)	839,991	0
Total Financing Sources	12,188	160,119,321	0
Net Cost of Operations (+/-)	4,052	164,479,331	0
Net Change	8,136	(4,360,010)	0
Cumulative Results of Operations	18,568	179,970,392	0
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 0	\$ 105,252,117	\$ 0
Beginning balances, as adjusted	0	105,252,117	0
Budgetary Financing Sources:			
Appropriations received	0	165,409,977	0
Appropriations transferred-in/out	0	(210,801)	0
Other adjustments (rescissions, etc)	0	(3,698,051)	0
Appropriations used	0	(157,921,032)	0
Total Budgetary Financing Sources	0	3,580,093	0
Unexpended Appropriations	0	108,832,210	0
Net Position	18,568	288,802,602	0

The accompanying notes are an integral part of these financial statements.

ANNUAL FINANCIAL STATEMENT 2010

General Fund Principal Statements

2010 Consolidated	2009 Earmarked Funds	2009 All Other Funds	2009 Eliminations	2009 Consolidated
\$ 184,340,834	\$ 5,355	185,017,169	\$ 0	185,022,524
0	0	(8,539,654)	0	(8,539,654)
184,340,834	5,355	176,477,515	0	176,482,870
157,921,032	0	147,746,152	0	147,746,152
1,432	846	0	0	846
10,757	7,322	0	0	7,322
297,535	0	130,180	0	130,180
202,939	0	(124,914)	0	(124,914)
857,824	0	725,513	0	725,513
839,990	0	(2,841,855)	0	(2,841,855)
160,131,509	8,168	145,635,076	0	145,643,244
164,483,383	3,091	137,782,189	0	137,785,280
(4,351,874)	5,077	7,852,887	0	7,857,964
179,988,960	10,432	184,330,402	0	184,340,834
\$ 105,252,117	\$ 0	92,171,366	\$ 0	92,171,366
105,252,117	0	92,171,366	0	92,171,366
165,409,977	0	163,967,087	0	163,967,087
(210,801)	0	693,628	0	693,628
(3,698,051)	0	(3,833,812)	0	(3,833,812)
(157,921,032)	0	(147,746,152)	0	(147,746,152)
3,580,093	0	13,080,751	0	13,080,751
108,832,210	0	105,252,117	0	105,252,117
288,821,170	10,432	289,582,519	0	289,592,951

The accompanying notes are an integral part of these financial statements.



U.S. AIR FORCE

General Fund

Principal Statements

Department of Defense

Department of the Air Force

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Combined	2009 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	\$ 29,211,348	\$ 26,676,890
Recoveries of prior year unpaid obligations	4,573,888	4,093,396
Budget authority		
Appropriation	165,422,165	163,975,253
Spending authority from offsetting collections		
Earned		
Collected	10,302,406	9,302,479
Change in receivables from Federal sources	219,051	324,746
Change in unfilled customer orders		
Advance received	9,782	147,616
Without advance from Federal sources	292,336	80,913
Subtotal	176,245,740	173,831,007
Nonexpenditure transfers, net, anticipated and actual	86,734	823,808
Permanently not available	(3,698,050)	(3,833,813)
Total Budgetary Resources	\$ 206,419,660	\$ 201,591,288
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$ 159,256,720	\$ 162,319,819
Reimbursable	11,072,669	10,060,121
Subtotal	170,329,389	172,379,940
Unobligated balance:		
Apportioned	32,529,681	26,091,928
Exempt from apportionment	13,729	4,480
Subtotal	32,543,410	26,096,408
Unobligated balance not available	3,546,861	3,114,940
Total status of budgetary resources	\$ 206,419,660	\$ 201,591,288
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 76,097,415	\$ 67,813,258
Less: Uncollected customer payments	(2,457,299)	(2,051,639)
from Federal sources, brought forward, October 1		
Total unpaid obligated balance	73,640,116	65,761,619
Obligations incurred net (+/-)	170,329,389	172,379,940
Less: Gross outlays	(167,845,279)	(160,002,387)
Obligated balance transferred, net		
Actual transfers, uncollected customer	(2)	0
payments from Federal sources (+/-)		
Total Unpaid obligated balance transferred, net	(2)	0
Less: Recoveries of prior year unpaid obligations, actual	(4,573,888)	(4,093,396)
Change in uncollected customer	(511,385)	(405,660)
payments from Federal sources (+/-)		
Obligated balance, net, end of period		
Unpaid obligations	74,007,637	76,097,415
Less: Uncollected customer payments	(2,968,686)	(2,457,299)
from Federal sources (-)		
Total, unpaid obligated balance, net, end of period	71,038,951	73,640,116
Net Outlays		
Net Outlays:		
Gross outlays	167,845,279	160,002,387
Less: Offsetting collections	(10,312,190)	(9,450,094)
Less: Distributed Offsetting receipts	(250,035)	(104,099)
Net Outlays	\$ 157,283,054	\$ 150,448,194

The accompanying notes are an integral part of these financial statements.

General Fund

Fiscal Year 2010

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
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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) General Property, Plant, and Equipment; (6) Government-Furnished Material and Contractor-Acquired Material; (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 provide 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 <http://www.defenselink.mil/recovery>.

- 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 earmarked funds. Earmarked funds 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 account separately for and report on the receipt, use and retention of revenues and other financing

- 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's 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.

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):

Air Force 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

**General Fund**

Notes to the Principal Statements

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 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), 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 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's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, 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 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 Materiel & 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 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 Air Force is unable to reconcile fully intragovernmental transactions with all federal agencies, 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, 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, Air Force's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Foreign Currency

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 computed based on the average annual write off over a five year period. 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 at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

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 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” with a completion date of year-end FY 2011 reporting.

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, Air Force uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2010 and FY 2009, 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. The Air Force has not fully implemented the threshold for real property; therefore, Air Force is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

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 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 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, Air Force records the applicable asset as though 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 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 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, 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 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 intransit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Significant Events

None.

1.Y. 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.

Note 2. Nonentity Assets

As of September 30	2010	2009
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 115,067	\$ 125,030
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 115,067	\$ 125,030
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 108,828	\$ 98,939
B. Accounts Receivable	299,716	138,516
C. Other Assets	184,825	186,225
D. Total Nonfederal Assets	\$ 593,369	\$ 423,680
3. Total Nonentity Assets	\$ 708,436	\$ 548,710
4. Total Entity Assets	\$ 312,740,996	\$ 313,019,908
5. Total Assets	\$ 313,449,432	\$ 313,568,618

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 includes interest receivable that upon collection are 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 (Amounts in thousands)	2010	2009
1. Fund Balances		
A. Appropriated Funds	\$ 107,434,225	\$ 103,175,823
B. Revolving Funds	0	0
C. Trust Funds	15,728	8,137
D. Special Funds	1,971	1,377
E. Other Fund Types	115,067	125,030
F. Total Fund Balances	<u>\$ 107,566,991</u>	<u>\$ 103,310,367</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 109,262,653	\$ 104,651,268
B. Fund Balance per	<u>107,566,991</u>	<u>103,310,367</u>
3. Reconciling Amount	<u>\$ 1,695,662</u>	<u>\$ 1,340,901</u>

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 \$ 1.7 billion with U.S. Treasury, which is comprised of the net value of the following:

\$ 26.6 million in allocation transfer from Air Force to the Department of Transportation (DOT). These funds are reported in the Fund Balance with Treasury (FBWT) by Air Force, but are not included in the U.S. Treasury FBWT. U.S. Treasury reports these balances under DOT.

\$ 0.5 million in allocation transfers from DOT to Air Force. The U.S. Treasury reports these funds as Air Force in the FBWT, but Air Force does not include in its FBWT because DOT reports these balances in their financial statements.

\$ 23.7 million in allocation transfer to Air Force from the Department of Agriculture and the Foreign Military Sales-Military Assistance Program (MAP). The U.S. Treasury reported these funds as Air Force in FBWT, but Air Force did not include the funds in its FBWT because the Department of Agriculture and MAP reported these balances in their financial statements.

\$ 250.4 million in withdrawal of the FBWT for unavailable receipt accounts at September 30, 2010. These funds are included in FBWT per Treasury but not included in FBWT per Air Force.

\$ 1.4 billion in withdrawal of the FBWT for cancelling appropriations at September 30, 2010. These FBWT per Treasury but not included in FBWT per Air Force.

\$ 4.9 million of unavailable receipt accounts due to fiduciary activity consisting of the Saving Deposit Program (SDP). The U.S. Treasury reported these funds as Air Force in FBWT, but activity recorded within the SDP must be excluded from the Air Force FBWT.

Status of Fund Balance with Treasury

As of September 30	2010	2009
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	\$ 32,543,409	\$ 26,096,409
B. Unavailable	3,546,861	3,114,938
2. Obligated Balance not yet Disbursed	\$ 74,007,637	\$ 76,097,415
3. Nonbudgetary FBWT	\$ 438,832	\$ 459,967
4. NonFBWT Budgetary Accounts	\$ (2,969,748)	\$ (2,458,362)
5. Total	<u>\$ 107,566,991</u>	<u>\$ 103,310,367</u>

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 funds 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 reduces the Status 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.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The Unobligated Balance unavailable of \$3.5 billion is not available for new obligations since the period for new obligations established by law has expired.



Note 4. Investments and Related Interest

As of September 30	2010				
	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
2. Medicare Eligible Retiree Health Care Fund		0		0		0
3. US Army Corps of Engineers		0		0		0
4. Other Funds		1,079		(6)		1,073
5. Total Nonmarketable, Market-Based		1,079		(6)		1,073

B. Accrued Interest

		7		7		7
C. Total Intragovernmental Securities	\$	1,086	\$	(6)	\$	1,080
					\$	1,094

2. Other Investments

A. Total Other Investments	\$	0	\$	0	\$	0
						N/A

As of September 30	2009				
	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
2. Medicare Eligible Retiree Health Care Fund		0		0		0
3. US Army Corps of Engineers		0		0		0
4. Other Funds		1,079		(10)		1,069
5. Total Nonmarketable, Market-Based		1,079		(10)		1,069

B. Accrued Interest

		10		10		10
C. Total Intragovernmental Securities	\$	1,089	\$	(10)	\$	1,079
					\$	1,103

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 finances the securities out of 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) primarily represents the Air Force Gift Fund investment in U.S. Treasury Securities.



Note 5. Accounts Receivable

As of September 30	2010			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
ts in thousands)				
1. Intragovernmental Receivables	\$ 415,493	N/A	\$	415,493
2. Nonfederal Receivables (From the Public)	\$ 599,380	\$ (139,592)	\$	459,788
3. Total Accounts Receivable	\$ 1,014,873	\$ (139,592)	\$	875,281

As of September 30	2009			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
(Amounts in thousands)				
1. Intragovernmental Receivables	\$ 298,953	N/A	\$	298,953
2. Nonfederal Receivables (From the Public)	\$ 666,917	\$ (83,577)	\$	583,340
3. Total Accounts Receivable	\$ 965,870	\$ (83,577)	\$	882,293

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)

1. Intragovernmental Other Assets

A. Advances and Prepayments	\$	93,765	\$	212,245
B. Other Assets		0		0
C. Total Intragovernmental Other Assets	\$	93,765	\$	212,245

2. Nonfederal Other Assets

A. Outstanding Contract Financing Payments	\$	11,288,053	\$	11,446,790
B. Advances and Prepayments		92,343		83,161
C. Other Assets (With the Public)		184,825		186,225
D. Total Nonfederal Other Assets	\$	11,565,221	\$	11,716,176

3. Total Other Assets

	\$	11,658,986	\$	11,928,421
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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 \$11.2 billion in contract financing payments and an additional \$648.8 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

**Note 7. Cash and Other Monetary Assets**

As of September 30 (Amounts in thousands)	2010	2009
1. Cash	\$ 95,365	\$ 83,306
2. Foreign Currency	13,463	15,633
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 108,828	\$ 98,939

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 the Air Force's Disbursing Officers as agents of U.S. Treasury. The total balance of \$108.8 million is restricted.

Note 8. Direct Loan and Loan Guarantees

Not applicable

Note 9. Inventory and Related Property

As of September 30 (Amounts in thousands)	2010	2009
1. Inventory, Net	\$ 0	\$ 0
2. Operating Materiel & Supplies, Net	49,698,922	47,588,282
3. Stockpile Materiel, Net	0	0
4. Total	\$ 49,698,922	\$ 47,588,282

General Composition of OM&S

The Operating Materiel 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 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. The category Held for Repair represents suspended, unserviceable (but reparable) items recorded at Moving Average Cost (MAC) or standard price.

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

Under current DoD policy, no allowance is made for serviceable, ready-to-issue, items (category Held for Use). An allowance equal to 100% of MAC or standard price, however, is made for the category Excess, Obsolete, and Unserviceable. This allowance results in a net book value of zero to the Air Force. Excess, Obsolete, and Unserviceable are valued at zero. This allowance results in a zero value to the Air Force. The category Held for Repair represents suspended, unserviceable (but reparable) items recorded at MAC or standard price.

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



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

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, 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 Materiel and Supplies, Net

As of September 30	2010			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	38,568,458	\$	0	\$	38,568,458	SP, LAC, MAC
B. Held for Repair		11,130,464		0		11,130,464	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		628,175		(628,175)		0	NRV
D. Total	\$	50,327,097	\$	(628,175)	\$	49,698,922	

As of September 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	36,018,675	\$	0	\$	36,018,675	SP, LAC, MAC
B. Held for Repair		11,569,607		0		11,569,607	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		1,698,500		(1,698,500)		0	NRV
D. Total	\$	49,286,782	\$	(1,698,500)	\$	47,588,282	

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 PP&E, Net

As of September 30

2010

Depreciation/
Amortization
MethodService
LifeAcquisition
Value(Accumulated Depreciation/
Amortization)Net Book
Value

(Amounts in thousands)

1. Major Asset Classes

A. Land	N/A	N/A	\$	404,614	N/A	\$	404,614
B. Buildings, Structures, and Facilities	S/L	20 Or 40		57,590,797	\$	(30,869,458)	26,721,339
C. Leasehold Improvements	S/L	lease term		0		0	0
D. Software	S/L	2-5 Or 10		609,086		(363,203)	245,883
E. General Equipment	S/L	5 or 10		43,050,104		(34,347,120)	8,702,984
F. Military Equipment	S/L	Various		297,763,495		(195,041,419)	102,722,076
G. Shipbuilding (Construction-in-Progress)	N/A	N/A		0		0	0
H. Assets Under Capital Lease	S/L	lease term		393,002		(341,086)	51,916
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A		4,690,532		N/A	4,690,532
J. Other				0		0	0
K. Total General PP&E			\$	404,501,630	\$	(260,962,286)	\$ 143,539,344



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

As of September 30

2009

Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
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(Amounts in thousands)

1. Major Asset Classes

A. Land	N/A	N/A	\$	401,899	N/A	\$	401,899
B. Buildings, Structures, and Facilities	S/L	20 Or 40		54,172,092	\$	(29,440,064)	24,732,028
C. Leasehold Improvements	S/L	lease term		0		0	0
D. Software	S/L	2-5 Or 10		543,013		(308,150)	234,863
E. General Equipment	S/L	5 or 10		41,527,663		(32,013,234)	9,514,429
F. Military Equipment	S/L	Various		300,284,138		(189,897,273)	110,386,865
G. Shipbuilding (Construction-in-Progress)	N/A	N/A		0		0	0
H. Assets Under Capital Lease	S/L	lease term		393,002		(322,098)	70,904
I. Construction-in-Progress (Excludes Military Equipment)	N/A	N/A		4,418,249		N/A	4,418,249
J. Other				0		0	0
K. Total General PP&E			\$	401,740,056	\$	(251,980,819)	\$ 149,759,237

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

General Fund

Notes to the Principal Statements

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	10,250	0	1,298	8,952
Archeological Sites	Each	1,848	347	0	2,195
Museum Collection Items (Objects, Not Including Fine Art)	Each	122,201	5,047	1,492	125,756
Museum Collection Items (Objects, Fine Art)	Each	1,283	42	64	1,261

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	1,501	181	0	1,682
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	7,587	20	0	7,607
9130	Licensed and Permitted Land	138	95	0	233
9140	Public Land	191	1	0	192
9210	Land Easement	109	53	0	162
9220	In-leased Land	86	6	0	92
9230	Foreign Land	290	31	0	321
Grand Total					10,289
TOTAL - All Other Lands					2,490
TOTAL - Stewardship Lands					7,799

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.

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

The Air Force reported 7,607,000 acres of mission essential land under its administration at the end of FY 2009. Stewardship Land decreased 20,000 acres during FY 2010 because of a change in category reporting. Specifically, certain category codes are now reported as government owned land rather than withdrawn public land. Land purchased by the Air Force with the intent to construct building or facilities is considered General PP&E and is reported on the balance sheet. All Stewardship Land, as reported, is in acceptable condition based on designated use.

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: Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places, including multi-use Heritage Assets. These buildings and structures are maintained by each base's civil engineering group as part of their overall responsibility. The Air Force reported 8,952 buildings and structures on Air Force bases and sites to be heritage assets at the end of FY 2010. During FY 2010, 1, 298 building and structures were deleted from the Air Force inventory because they are considered as Capehart –Wherry Era (CWE) houses. CWE houses are subject to the 2008 nationwide Program Comment with the Advisory Council on Historic Preservation that allows the Air Force to demolish the majority of the CWE houses from its inventory.

Archeological Sites: Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Historical Places in accordance with Section 110 National Historical Preservation Act. The Air Force listed 2,195 archeological sites on or eligible for the National Register at the end of FY 2010.

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 historic 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. For the fiscal year ended September 30, 2010 there have been 5,047 objects added to the collection. These additions are a result of private donations, transfers from other Air Force and federal entities, curatorial administrative actions, and the continued documentation of previously unreported artifacts at Air Force activities worldwide. New accessions include significant artifacts from the F-117 "Nighthawk" program as well as the Robin Olds Collection. 1,492 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 NMUSAF is fully accredited by the American Association of Museums.

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 FY 2010 restoration was completed on the museum's F-84E "Thunderjet" which is now a centerpiece exhibit in the newly completed Korean War Gallery. Detailed restoration work has continued on the iconic Boeing B-17D "Swoose" and Boeing B-17F "Memphis Belle". Work has also commenced on a Sikorsky HH-3 "Jolly Green Giant" helicopter with a notable combat history as part of the museum's upgrade of the War in Southeast Asia Gallery.

Museum Collection Items, Fine Art: The National Museum of the United States Air Force (NMUSAF) holds an art collection containing original oils, drawings, sketches and sculptures that are in direct support of its exhibit requirements. These are separate from the holdings of the Air Force Art Program. Since the last report the NMUSAF has added 42 items and deleted 64 items which were determined not to meet fine art criteria and transferred to reference library holdings or were transferred to other federal historical activities.

Assets Under Capital Lease

As of September 30	2010	2009
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	\$ 393,002	\$ 393,002
B. Equipment	0	0
C. Accumulated Amortization	(341,086)	(322,098)
D. Total Capital Leases	<u>\$ 51,916</u>	<u>\$ 70,904</u>



Note 11.	Liabilities Not Covered by Budgetary Resources
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As of September 30 (Amounts in thousands)	2010	2009
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	396,280	337,063
D. Total Intragovernmental Liabilities	\$ 396,280	\$ 337,063
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 732,645	\$ 357,871
B. Military Retirement and Other Federal Employment Benefits	1,101,150	1,072,388
C. Environmental Liabilities	7,920,935	7,955,740
D. Other Liabilities	2,695,267	2,624,364
E. Total Nonfederal Liabilities	\$ 12,449,997	\$ 12,010,363
3. Total Liabilities Not Covered by Budgetary Resources	\$ 12,846,277	\$ 12,347,426
4. Total Liabilities Covered by Budgetary Resources	\$ 11,781,986	\$ 11,628,240
5. Total Liabilities	\$ 24,628,263	\$ 23,975,666

Information Related to Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources include 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 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.

Note 12. Accounts Payable

As of September 30

2010

Accounts Payable

Interest, Penalties, and
Administrative Fees

Total

(Amounts in thousands)

1. Intragovernmental Payables	\$	2,375,973	\$	N/A	\$	2,375,973
2. Nonfederal Payables (to the Public)		3,719,716		18		3,719,734
3. Total	\$	6,095,689	\$	18	\$	6,095,707



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

As of September 30	2009				
	Accounts Payable		Interest, Penalties, and Administrative Fees		Total
(Amounts in thousands)					
1. Intragovernmental Payables	\$	2,583,818	\$	N/A	\$ 2,583,818
2. Nonfederal Payables (to the Public)		3,278,316		0	3,278,316
3. Total	\$	5,862,134	\$	0	\$ 5,862,134

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 intraagency seller-side accounts receivable. Accounts Payable was adjusted by accruing additional accounts payable and expenses.

Note 13.

Debt

Not applicable

Note 14.	Environmental Liabilities and Disposal Liabilities
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As of September 30

2010

2009

(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)	\$	3,122,970	\$	3,350,133
2. Active Installations—Military Munitions Response Program (MMRP)		1,891,588		1,674,291
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	14,772	189,250
2. Environmental Closure Requirements	1,253,417	1,252,339
3. Environmental Response at Operational Ranges	0	0
4. Asbestos	888,960	888,960
5. Non-Military Equipment	34,175	34,175
6. Other	0	0

C. Base Realignment and Closure Installations

1. Installation Restoration Program	1,583,186	1,372,805
2. Military Munitions Response Program	7,303	4,230
3. Environmental Corrective Action / Closure Requirements	6,579	14,609
4. Asbestos	0	0
5. Non-Military Equipment	0	0
6. Other	0	0

D. Environmental Disposal for Military Equipment / Weapons Programs



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

As of September 30	2010	2009
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	\$ 8,839,352	\$ 8,817,194

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.

The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment is \$373.0 million.

Applicable Laws and Regulations for Cleanup 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:

- a) Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- b) Superfund Amendments and Reauthorization Act (SARA)
- c) Clean Water Act
- d) Safe Drinking Water Act
- e) Clean Air Act
- f) Resource Conservation and Recovery Act (RCRA)
- g) Toxic Substances Control Act (TSCA)
- h) Medical Waste Tracking Act
- i) Atomic Energy Act
- j) Nuclear Waste Policy Act
- k) Low Level Radioactive Waste Policy Amendments Act

Types of Environmental Liabilities Identified

The Air Force has environmental liabilities for cleanup 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 BRAC installations. 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 cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods 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.

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 Liabilities is accounted for as a totally self contained program. All direct and indirect costs of the program are captured and reported. 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 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.

For General PP&E placed into service after September 30, 1997, the Air Force expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Air Force expenses the full cost to clean up contamination for Stewardship PP&E at the time the asset is placed into service.

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, 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 is unknown.



Note 15. Other Liabilities

As of September 30

2010

Current
Liability

Noncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	778,925	\$	0	\$	778,925
B. Deposit Funds and Suspense Account Liabilities		323,765		0		323,765
C. Disbursing Officer Cash		300,055		0		300,055
D. Judgment Fund Liabilities		43,850		0		43,850
E. FECA Reimbursement to the Department of Labor		131,294		168,437		299,731
F. Custodial Liabilities		0		293,314		293,314
G. Employer Contribution and Payroll Taxes Payable		88,406		0		88,406
H. Other Liabilities		53,092		0		53,092
I. Total Intragovernmental Other Liabilities	\$	1,719,387	\$	461,751	\$	2,181,138

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	2,389,341	\$	0	\$	2,389,341
B. Advances from Others		32,344		0		32,344
C. Deferred Credits		0		0		0
D. Deposit Funds and Suspense Accounts		115,160		0		115,160
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		2,572,254		0		2,572,254
H. Capital Lease Liability		8,262		59,992		68,254

ANNUAL FINANCIAL STATEMENT 2010

General Fund

Notes to the Principal Statements

I. Contract Holdbacks	128,311	0	128,311
J. Employer Contribution and Payroll Taxes Payable	263,907	0	263,907
K. Contingent Liabilities	648,851	117,558	766,409
L. Other Liabilities	66,722	0	66,722
M. Total Nonfederal Other Liabilities	\$ 6,225,152	\$ 177,550	\$ 6,402,702
3. Total Other Liabilities	\$ 7,944,539	\$ 639,301	\$ 8,583,840

As of September 30

2009

Current
LiabilityNoncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$ 840,562	\$ 0	\$ 840,562
B. Deposit Funds and Suspense Account Liabilities	334,937	0	334,937
C. Disbursing Officer Cash	287,368	0	287,368
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	130,959	171,766	302,725
F. Custodial Liabilities	0	140,886	140,886
G. Employer Contribution and Payroll Taxes Payable	74,790	0	74,790
H. Other Liabilities	34,810	0	34,810
I. Total Intragovernmental Other Liabilities	\$ 1,703,426	\$ 312,652	\$ 2,016,078

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$ 2,326,474	\$ 0	\$ 2,326,474
B. Advances from Others	33,655	0	33,655
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	125,295	0	125,295
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

(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	2,459,699	0	2,459,699
H. Capital Lease Liability	7,358	93,006	100,364
I. Contract Holdbacks	111,281	0	111,281
J. Employer Contribution and Payroll Taxes Payable	236,706	0	236,706
K. Contingent Liabilities	577,272	152,889	730,161
L. Other Liabilities	78,059	0	78,059
M. Total Nonfederal Other Liabilities	\$ 5,955,799	\$ 245,895	\$ 6,201,694
3. Total Other Liabilities	\$ 7,659,225	\$ 558,547	\$ 8,217,772

Relevant Information for Comprehension

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

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

Contingent Liabilities includes \$648.8 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts greater than the amounts 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 potential future payments are estimable, the Air Force has recognized a contingent liability for estimated future payments which are conditional 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.

Estimation Methodology

The Air Force General Counsel, through legal determination, assesses and categorizes all contingent legal liability cases that equal or exceed the materiality threshold set by Department of Defense Inspector General (DoDIG). For the remaining cases falling below the dollar materiality threshold set by DoDIG, they are considered in aggregate, if the total amount of the cases equal or exceed the established materiality threshold.

The Air Force General Counsel also solicits case data through quarterly data calls from the Air Force JAC (Judge Advocate Civil Lawsuits and Litigation Directorate). Air Force financial management personnel use the solicited case data which includes the current reporting year and each of the prior two years to estimate the amounts of probable and reasonably possible contingent liabilities. See Note 16 for detailed disclosure of contingent liabilities.

Air Force financial management personnel use a three year prior case analysis spreadsheet which was developed by the Air Force Audit Agency to calculate and estimate the amount of contingent liabilities (probable and reasonably possible) for reporting or disclosing in the quarterly financial statements. In cases where Air Force General Counsel discloses that a judgment has been awarded against the Air Force, these amounts will be reported on the Balance Sheet and within this note.



Capital Lease Liability

As of September 30

2010

Asset Category

Land and
Buildings

Equipment

Other

Total

(Amounts in thousands)

1. Future Payments Due

A. 2011	36,786	0	0	36,786
B. 2012	13,088	0	0	13,088
C. 2013	9,462	0	0	9,462
D. 2014	8,688	0	0	8,688
E. 2015	8,688	0	0	8,688
F. After 5 Years	0	0	0	0

G. Total Future Lease Payments Due	\$ 76,712	\$ 0	\$ 0	\$ 76,712
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H. Less: Imputed Interest Executory Costs	8,458	0	0	8,458
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I. Net Capital Lease Liability	\$ 68,254	\$ 0	\$ 0	\$ 68,254
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2. Capital Lease Liabilities Covered by Budgetary Resources	\$	63,104
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3. Capital Lease Liabilities Not Covered by Budgetary Resources	\$	5,150
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As of September 30

2009

Asset Category

Land and
Buildings

Equipment

Other

Total

(Amounts in thousands)

1. Future Payments Due

A. 2010	38,478	0	0	38,478
B. 2011	36,786	0	0	36,786
C. 2012	13,088	0	0	13,088
D. 2013	9,462	0	0	9,462
E. 2014	8,688	0	0	8,688
F. After 5 Years	8,688	0	0	8,688

G. Total Future Lease Payments Due	\$ 115,190	\$ 0	\$ 0	\$ 115,190
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H. Less: Imputed Interest Executory Costs	14,825	0	0	14,825
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I. Net Capital Lease Liability	\$ 100,365	\$ 0	\$ 0	\$ 100,365
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2. Capital Lease Liabilities Covered by Budgetary Resources	\$	88,894
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3. Capital Lease Liabilities Not Covered by Budgetary Resources	\$	11,471
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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 Judgment Fund liabilities in Note 12, Accounts Payable; and Note 15, Other Liabilities.

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$2.7 billion. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administered by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

The amounts disclosed for litigation claims and assessments are fully supportable and must agree with Air 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 \$712.8 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 or may not result in a future outflow of expenditures. Currently, Air Force does not have a systemic process by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present the Air Force's contingent liabilities.

The estimated probable liability amount of \$766.4 million was recognized in Note 15 as contingent liabilities.

The recognized contingent liability includes \$648.8 million in estimated future contract financing payments that will be paid to contractors upon delivery and government acceptance. See Note 15 for additional details.

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, 2010, valued at \$117.5 million, included in Nonfederal Contingent Liabilities. As of September 30, 2010, the Air Force was party to 5,561 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.



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30		2010					
		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	\$	1,101,150	\$	0	\$	1,101,150	
B. Voluntary Separation Incentive Programs		0		0		0	
C. DoD Education Benefits Fund		0		0		0	
D. Other		8,213		(8,213)		0	
E. Total Other Benefits	\$	1,109,363	\$	(8,213)	\$	1,101,150	
3. Total Military Retirement and Other Federal Employment Benefits:							
	\$	1,109,363	\$	(8,213)	\$	1,101,150	

As of September 30		2009				
		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	\$	1,072,389	\$	0	\$	1,072,389
B. Voluntary Separation Incentive Programs		0		0		0
C. DoD Education Benefits Fund		0		0		0
D. Other		6,177		(6,177)		0
E. Total Other Benefits	\$	1,078,566	\$	(6,177)	\$	1,072,389
3. Total Military Retirement and Other Federal Employment Benefits:						
	\$	1,078,566	\$	(6,177)	\$	1,072,389

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

3.653% in Year 1
4.300% 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 (COLAs)] and medical inflation factors [Consumer Price Index Medical (CPIMs)] were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2010 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:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2010	N/A	N/A
2011	2.23%	3.45%
2012	1.13%	3.43%
2013	1.70%	3.64%
2014	1.90%	3.66%
2015	1.93%	3.73%
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 2010 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 2010 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

(Amounts in thousands)

	2010	2009
1. Intragovernmental Costs	\$ 34,965,325	\$ 33,832,898
2. Public Costs	135,431,727	110,093,815
3. Total Costs	\$ 170,397,052	\$ 143,926,713
4. Intragovernmental Earned Revenue	\$ (4,693,598)	\$ (4,138,542)
5. Public Earned Revenue	(1,220,071)	(2,002,892)
6. Total Earned Revenue	\$ (5,913,669)	\$ (6,141,434)
7. Net Cost of Operations	\$ 164,483,383	\$ 137,785,279

Relevant Information for Comprehension

The \$618.8 million Fiscal Year (FY) 2009 abnormal balance for the Family Housing and Military Construction program cost is driven by a larger than normal cost capitalization offset.

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of 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".

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 accruing additional accounts payable and expenses.

The Air Force does not meet accounting standards and that 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.

Note 19. Disclosures Related to the Statement of Changes in Net Position**Relevant Information for Comprehension**

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

The Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations Received on the Statement of Budgetary Resources (SBR) in the amount of \$ 12 million. The difference is due to additional resources included in the Appropriations Received on the SBR. Refer to Note 20 for additional details.

The eliminations column on SCNP will reflect zero dollars. In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues, and expenses) for intradepartmental activity between earmarked and other (nonearmarked) funds are reported on the same lines. The eliminations column contains all appropriate elimination entries, which net to zero within each respective line, except for intraentity imputed financing costs.



Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30 (Amounts in thousands)	2010	2009
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 76,521,166	\$ 79,201,453
2. Available Borrowing and Contract Authority at the End of the Period	0	0

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 are funds not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the table.

	Category A	Category B	Exempt
Direct	\$93.9 billion	\$65.2 billion	\$1.7 million
Reimbursable	\$6.9 billion	\$4.1 billion	\$0.1 million

Intraentity Transactions

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)]

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

Appropriations Received

The Appropriations Received line item on the Statement of Changes in Net Position differs from that reported on SBR because Appropriations Received on the Statement of Changes in Net Position 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 \$12.2 million difference.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30

2010

2009

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$	170,329,389	\$	172,379,940
2. Less: Spending authority from offsetting collections and recoveries (-)		(15,397,463)		(13,949,150)
3. Obligations net of offsetting collections and recoveries	\$	154,931,926	\$	158,430,790
4. Less: Offsetting receipts (-)		(250,035)		(104,099)
5. Net obligations	\$	154,681,891	\$	158,326,691

Other Resources:

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		202,939		(124,914)
8. Imputed financing from costs absorbed by others		857,824		725,513
9. Other (+/-)		839,990		(2,841,855)
10. Net other resources used to finance activities	\$	1,900,753	\$	(2,241,256)
11. Total resources used to finance activities	\$	156,582,644	\$	156,085,435

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 (-)	\$	2,680,287	\$	(8,606,530)
12b. Unfilled Customer Orders		302,117		228,532
13. Resources that fund expenses recognized in prior Periods (-)		(59,848)		(845,421)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		250,035		104,099
15. Resources that finance the acquisition of assets (-)		(7,638,134)		(29,521,992)
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 (+/-)		(1,042,928)		2,966,770
17. Total resources used to finance items not part of the Net Cost of Operations	\$	(5,508,471)	\$	(35,674,542)
18. Total resources used to finance the Net Cost of Operations	\$	151,074,173	\$	120,410,893

**U.S. AIR FORCE****General Fund**

Notes to the Principal Statements

As of September 30

2010

2009

(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	\$	112,556	\$	187,550
20. Increase in environmental and disposal liability		22,158		550,819
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		0		0
23. Other (+/-)		487,268		137,812
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	621,982	\$	876,181

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	13,243,714	\$	18,297,128
26. Revaluation of assets or liabilities (+/-)		2,776,078		1,265,504
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		0		0
27c. Operating Material and Supplies Used		24,316,312		25,371,357
27d. Other		(27,548,875)		(28,435,783)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	12,787,229	\$	16,498,206

29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period \$ 13,409,211 \$ 17,374,387

30. Net Cost of Operations \$ 164,483,384 \$ 137,785,280

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 \$142.3 million in the Other Components Not Requiring or Generating Resources category.

The following note schedule 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 consists of other gains to adjust intragovernmental transfers in.

Other Resources Used to Finance Items Not Part of the Net Cost of Operations include adjustment 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 includes expenses for Operations and Maintenance, Procurement, Military Construction and Family Housing.

Note 22.	Disclosures Related to Incidental Custodial Collections
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The Air Force collected \$46.2 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.



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

Note 23.

Earmarked Funds

BALANCE SHEET As of September 30 (Amounts in thousands)	2010			
	U.S. Army Corps of Engineers	Other Earmarked Funds	Eliminations	Total

ASSETS

Fund balance with Treasury	\$	0	\$	17,700	\$	0	\$	17,700
Investments		0		1,080		0		1,080
Accounts and Interest Receivable		0		0		0		0
Other Assets		0		5		0		5
Total Assets	\$	0	\$	18,785	\$	0	\$	18,785

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$	0	\$	0	\$	0	\$	0
Other Liabilities		0		217		0		217
Total Liabilities	\$	0	\$	217	\$	0	\$	217

Unexpended Appropriations		0		0		0		0
Cumulative Results of Operations		0		18,568		0		18,568
Total Liabilities and Net Position	\$	0	\$	18,785	\$	0	\$	18,785

STATEMENT OF NET COST

For the period ended September 30

Program Costs	\$	0	\$	4,106	\$	0	\$	4,106
Less Earned Revenue		0		0		0		0
Net Program Costs	\$	0	\$	4,106	\$	0	\$	4,106
Less Earned Revenues Not Attributable to Programs		0		0		0		0
Net Cost of Operations	\$	0	\$	4,106	\$	0	\$	4,106

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2010				
	U.S. Army Corps of Engineers	Other Earmarked Funds	Eliminations	Total	
Net Position Beginning of the Period	\$ 0	\$ 10,432	\$ 0	\$ 10,432	
Net Cost of Operations	0	4,052	0	4,052	
Budgetary Financing Sources	0	12,188	0	12,188	
Other Financing Sources	0	0	0	0	
Change in Net Position	\$ 0	\$ 8,136	\$ 0	\$ 8,136	
Net Position End of Period	\$ 0	\$ 18,568	\$ 0	\$ 18,568	

Earmarked Funds

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.



U.S. AIR FORCE

General Fund

Notes to the Principal Statements

BALANCE SHEET As of September 30 (Amounts in thousands)	2009			
	U.S. Army Corps of Engineers	Other Earmarked Funds	Eliminations	Total

ASSETS

Fund balance with Treasury	\$	0	\$	9,515	\$	0	\$	9,515
Investments		0		1,079		0		1,079
Accounts and Interest Receivable		0		1		0		1
Other Assets		0		5		0		5
Total Assets	\$	0	\$	10,600	\$	0	\$	10,600

LIABILITIES and NET POSITION

Military Retirement Benefits and Other Federal Employment Benefits	\$	0	\$	0	\$	0	\$	0
Other Liabilities		0		168		0		168
Total Liabilities	\$	0	\$	168	\$	0	\$	168
Unexpended Appropriations		0		0		0		0
Cumulative Results of Operations		0		10,432		0		10,432
Total Liabilities and Net Position	\$	0	\$	10,600	\$	0	\$	10,600

STATEMENT OF NET COST

For the period ended September 30

Program Costs	\$	0	\$	3,721	\$	0	\$	3,721
Less Earned Revenue		0		(630)		0		(630)
Net Program Costs	\$	0	\$	3,091	\$	0	\$	3,091
Less Earned Revenues Not Attributable to Programs		0		0		0		0
Net Cost of Operations	\$	0	\$	3,091	\$	0	\$	3,091

STATEMENT OF CHANGES IN NET POSITION For the period ended September 30	2009			
	U.S. Army Corps of Engineers	Other Earmarked Funds	Eliminations	Total
Net Position Beginning of the Period	\$ 0	\$ 5,355	\$ 0	\$ 5,355
Net Cost of Operations	0	0	0	0
Budgetary Financing Sources	0	8,168	0	8,168
Other Financing Sources	0	0	0	0
Change in Net Position	\$ 0	\$ 8,168	\$ 0	\$ 8,168
Net Position End of Period	\$ 0	\$ 13,523	\$ 0	\$ 13,523



Note 24. Fiduciary Activities

Schedule of Fiduciary Activity

For the period ended September 30	2010	2009
(Amounts in thousands)		
1. Fiduciary net assets, beginning of year	\$ 25,444	\$ 17,561
2. Fiduciary revenues	0	0
3. Contributions	46,166	36,902
4. Investment earnings	2,701	2,124
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	(43,688)	(31,143)
8. Increase/(Decrease) in fiduciary net assets	\$ 5,179	\$ 7,883
9. Fiduciary net assets, end of period	\$ 30,623	\$ 25,444

Schedule of Fiduciary Net Assets

For the period ended September 30	2010	2009
(Amounts in thousands)		
FIDUCIARY ASSETS		
1. Cash and cash equivalents	\$ 30,624	\$ 25,444
2. Investments	0	0
3. Other Assets	0	0
FIDUCIARY LIABILITIES		
4. Less: LIABILITIES	\$ 0	\$ 0
5. TOTAL FIDUCIARY NET ASSETS	\$ 30,624	\$ 25,444

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
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As of September 30	2010 Asset Category			
	Land and Buildings	Equipment	Other	Total

(Amounts in thousands)

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

 Future Payments Due
Fiscal Year

2011	46,129	0	101,634	147,763
2012	48,435	0	104,683	153,118
2013	50,856	0	107,823	158,679
2014	53,398	0	111,058	164,456
2015	56,068	0	114,390	170,458
After 5 Years	58,871	0	117,822	176,693

**Total Future Lease
Payments Due**

\$	313,757	\$	0	\$	657,410	\$	971,167
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Relevant Information for Comprehension

Leases in the land and buildings category include costs for operating leased housing facilities for the active Air Force in the United States and overseas. Section 801 Family Housing Program leases are not included in this category.

Other leases consist of Air Force vehicle leases from the General Services Administration and commercial lessors located in Europe, Southwest Asia, and the United States.

Note 26.	Restatements
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Not applicable.



	2011	2012	2013	2014	2015
	3,706	31.0	7,606	4	67.0
	(1,190)	(10.6)	(2,724)	(23.8)	(1,200)
	(64)	(0.6)	(84)	(0.7)	(90)
	94	0.8	155	1.3	299
	597	14.3	—	—	—
	37	3.9	(2,653)	(23.2)	(1,048)
	7.4	731	6.4	(461)	—
	(3.5)	<u>\$ (3,384)</u>	<u>(29.6)</u>	<u>\$ (587)</u>	<u>(0.18)</u>
	<u>\$ (1.06)</u>				

General Fund

Fiscal Year 2010

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 2010	FY 2009	FY 2008	FY 2007	FY 2006
1. Transferred Assets:					
National Defense Mission Related	0	0	0	0	0
2. Funded Assets:					
National Defense Mission Related	\$11.5	\$19.6	\$2.8	\$8.5	\$8.3
Totals	\$11.5	\$19.6	\$2.8	\$8.5	\$8.3

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 2010	FY 2009	FY 2008	FY 2007	FY 2006
1. Basic Research	\$449	\$418	\$389	\$383	\$374
2. Applied Research	1,074	\$1,069	\$1,051	\$1,032	\$1,034
3. Development:					
Advanced Technology Development	658	\$635	\$611	\$937	\$970
Advanced Component Development and Prototypes	1,858	\$2,022	\$2,423	\$2,310	\$2,185
System Development and Demonstration	3,101	\$3,542	\$3,654	\$4,094	\$4,572
Research, Development, Test and Evaluation					
Management Support	1,237	\$1,296	\$1,323	\$1,286	\$1,381
Operational Systems Development	15,380	\$14,793	\$12,459	\$11,481	\$11,579
4. Totals	\$23,757	\$23,775	\$21,910	\$21,523	\$22,095

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

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

Basic Research:

The Air Force supported research on nanocomposite material called a thermopower wave, which may convert chemical energy to fuel cells for micro-machines, sensors, and emergency communication beacons. The promising technology is generating attention because it is 100% non-toxic, saves energy, and can create a significant amount of power in tiny batteries—up to ten times as much as commercial batteries.

Basic research has demonstrated the world's smallest semiconductor laser which may have applications to the Air Force in communications, computing, and bio-hazard detection. The semiconductor, called a plasmon, can focus light the size of a single protein in a space that is smaller than half its wavelength while maintaining laser-like qualities that allow it to not dissipate over time. This important discovery has the potential to eliminate optical loss and make plasmonic-based technologies viable for a broad spectrum of applications. The next generation of plasmonic lasers, called nanolasers, is even expected to probe and manipulate molecules, which will advance ultra-sensitive bio-detection and nanoscale optics, benefiting optics-based telecommunications, optical computing, and healthcare.

Applied Research:

In-house applied research scientists have made a breakthrough in crystal growth of bulk gallium nitride (GaN). Employing ammonothermal crystal growth methods, they have grown low-defect-density bulk GaN crystals that replicate the high quality of “seed” crystals from which they were grown. GaN-based semiconductors are emerging as the materials of choice for next-generation high-power RF and microwave transistors; for LEDs, lasers, and detectors for ultraviolet through green wavelengths; and for white-light replacements for incandescent and fluorescent lamps.

The Harsh Environment Fuze Technology (HEFTY) program developed the capability to model, characterize, design, and test fuzes and fuze components in harsh environments based on requirements for current and future munitions. This program improved the definition of the mechanical environment that exists in penetrating weapons to enable an improvement in fuze reliability. It also provides the foundation for future higher velocity penetrators for increased capabilities.

Advanced Technology Development:

The Air Force’s X-51A Scramjet Engine Demonstrator-Waverider successfully completed the longest supersonic combustion ramjet- (scramjet-) powered hypersonic flight on May 26, 2010, on the Pt Mugu Test Range, California. The demonstrator vehicle's scramjet engine lit and sustained combustion on JP-7 jet fuel for 143 seconds, breaking the previous record of 13 seconds set by NASA's X-43A Hyper-X in 2004 by 11 times, and quadrupling the total amount of in-flight scramjet engine time out of all US hypersonic air breathing flights. The main objective of the X-51A program is to flight test the Air Force hypersonic technology (HyTech) scramjet engine, developed in the late 90s and early 2000s, to accelerate a vehicle from boost (approximately Mach 4.5) to Mach 6+. Additional objectives included collecting flight data on scramjet operation, proving the viability of a hydrocarbon fuel-cooled scramjet, and demonstrating the vehicle produced greater thrust than drag.

Geodesic Dome Phased Array Antenna (GDPAA) Technology Transition: The GDPAA Advanced Technology Demonstration (ATD) is part of a multi-phase activity to upgrade the Air Force Satellite Control Network (AFSCN). By replacing large dish antennas with advanced phased array antennas, GDPAA will greatly improve satellite communication links for the AFSCN. The phased-array technology will provide more flexible and reliable satellite telemetry, tracking and commanding capabilities for the Air Force.

As part of efforts to reduce the U.S. military's reliance on foreign energy sources, the Air Force continued certification of the alternative jet fuel blend of JP-8 with up to 50% synthetic kerosene produced by the Fischer-Tropsch (FT) process. The FT process can use coal, natural gas, biomass or a combination of them to produce liquid fuel, and will provide potential sources for jet fuel in addition to petroleum. The FT certification effort is part of the Pentagon’s Assured Fuel Initiative, in which the Air Force plans to certify all of its systems which use jet fuel to be able to use the FT blend by early 2011. USAF-certified aircraft now include C-5, C-130, C/KC-



135, E-3, F-4, F-15, F-16, F-22, H-60, T-6, in addition to the F-15, F-22, B-52, C-17 and B-1 reported certified last year. In addition, the B-2, H-1, and E-8 certification is imminent. Field service evaluations to identify longer term effects of the blended, fuel were successfully completed on a representative example of USAF's fueling infrastructure with no negative effects found. Additional longer term use evaluations are being planned for both the F-16 and the C-130. The Air Force collaborated with the FAA and Industry in the development and final approval by ASTM International of a new commercial specification for aviation fuel allowing up to 50% FT synthetic kerosene in commercial Jet A and Jet A-1 fuels (ASTM D-7566, "Aviation Turbine Fuel Containing Synthesized Hydrocarbons"- December 1, 2009). Consistent with this change and the USAF effort to harmonize the commercial and JP-8 jet fuel specifications, a change to the JP-8 specification (MIL-DTL-83133G) was implemented on Apr 30, 2010, authorizing up to 50% of USAF fuel identified as "JP-8" to contain up to 50% FT synthetic kerosene. Based on these approved standards, the Air Force completed certification of all of its Commercial Derivative Aircraft (CDAs) without requiring any additional dedicated testing. In addition, the Air Force has initiated certification activities for another near-term potential non-petroleum fuel blend; its blend stocks are derived from biological fats and oils. This class of fuel blend stocks is termed Hydroprocessed Renewable Jet (HRJ) fuel, which, when blended up to 50% with JP-8, will provide the Air Force with sustainable options for reducing the use of petroleum fuels. Thus far, the F110 and F100 engines have successfully completed testing of representatives of this fuel class in the test cells at Arnold Engineering Development Center. Also, these fuels have successfully powered flights by A-10 and C-17 aircraft at Eglin AFB and Edwards AFB respectively. The fuel has, thus far, functioned just like JP-8, as expected; and fleet certification is on track for mid FY12.

Demonstration and Validation (Advanced Component Development and Prototypes):

The Air Force's Advanced Component Development and Prototypes programs are comprised of system specific advanced technology integration efforts accomplished in an operational environment to help expedite transition from the effort. In FY 2004, the Air Force successfully demonstrated Fighter Aircraft Command and Control Enhancement (FACE). FACE provides an improved, beyond-line-of-sight (BLOS) command and control link with fighter aircraft by integrating Iridium telephone communications equipment with existing aircraft communications equipment. BLOS capability has traditionally been provided by low-density, high-demand airborne platforms acting as communications relays. FACE provides relief for these overworked assets, while allowing combatant commanders to maintain positive control of the battle space. FACE has been approved for deployment to Afghanistan through the Air Force's Rapid Response Process, and has the potential for extensive use in virtually any area of responsibility, including Homeland Defense.

In FY 2005, the Air Force restructured and refocused the Space Radar (SR) program (formerly Space Based Radar) to address congressional concerns with technical risk, affordability, and DoD-IC integration. In January 2005 the Secretary of Defense and the Director of Central Intelligence signed a joint memo designating the SR program as the single space radar capability for the nation. In May 2007, the Deputy Secretary of Defense and the Principal Deputy Director of National Intelligence signed the Joint Radar Enterprise Memorandum, agreeing to a joint

funding arrangement, acquisition strategy, and management structure. The details of this arrangement are being captured in the Joint Radar Enterprise Management Plan. The SR Initial Capabilities Document (ICD) was approved by the IC Mission Requirements Board (MRB) in December 2005 and the DoD Joint Requirements Oversight Council (JROC) in January 2006. The Capability Development Document is being prepared in parallel with the SR system concept of operations (CONOPS); both are on track for MRB and JROC approval in 1st Quarter, FY 2009. The SR program implemented a demonstration framework approach to system development. This approach will further technology maturity risk reduction and CONOPS experimentation through a mix of space, air, and land-based demonstration activities that will maximize existing assets. The SR program continues to make significant advancement towards the System Requirements Review milestone. The SR program will provide day/night, all-weather global surface moving target indications (MTI), SAR, and high-resolution terrain information (HRTI) capabilities from a space-based platform. Initial launch capability is planned for 4th Quarter, FY 2016.

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 Air Force 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 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 9th year of a 15-year Engineering and Manufacturing Development (EMD) effort. President's Budget, FY 2011, significantly restructured the F-35 program, decreasing procurement by 122 aircraft across the FYDP and extending EMD to March 2016. A subsequent Critical Nunn-McCurdy breach has driven a further, still on-going, examination of the program which will likely drive additional changes. Significant program accomplishments in FY 2010 include:

- 19 of 20 flight and ground test aircraft produced
- 7 flight test aircraft ferried: 4 STOVLs, 2 CTOLs, 1 CTOL at China Lake; 7 flight test aircraft still to ferry
- 370 of 333 planned flight test sorties and 4910 of 4570 planned test points as of 31 Aug 2010
- Low Rate Initial Production (LRIP) Lot 3 contracts for 7 AF CTOLs & 7 Navy STOVLs awarded to Lockheed on 2 Jun 09 and P&W on 22 Jul 09

The Transformational Satellite Communications (TSAT) system will provide the essential capabilities required to enable the DoD's vision for 21st century military operations. TSAT, which consists of a five-satellite geosynchronous satellite constellation, network operations



centers, and associated ground architecture, will establish global internet-like connectivity that is essential for U.S. and allied personnel to communicate as a joint *networked* force. It will also extend assured, protected communications connectivity to mobile forces in theater and vastly increase the overall capacity of our military satellite infrastructure.

FY 2007 has proven to be a milestone year for TSAT. The program made excellent progress in demonstrating the maturity of its critical technology elements by successfully completing the third of three demonstrations at MIT Lincoln Laboratory (MIT/LL), testing each competing contractor's proposed Laser Communications (or 'lasercom') and next-generation satellite processor/router (NGPR) equipment. The program also completed a successful four-week system design review (SDR), where the government assessed the viability of the architecture designs for each competing contractor on the satellite segment and on the TSAT Mission Operations System (TMOS) ground segment, whose contract was awarded in January 2006.

Based upon the extent and success of risk reduction efforts accomplished thus far on this program, TSAT is prepared to meet a Key Decision Point-B (KDP-B) milestone in order to gain Milestone Decision Authority (MDA) acceptance to proceed into the Preliminary Design Phase of the program's acquisition cycle. In preparation for the KDP-B decision, several in-depth reviews were performed this summer on TSAT, including an Independent Program Assessment, an Independent Cost Evaluation, and a Technical Readiness Assessment. The underlying result of these detailed reviews was that the program structure, budgeting, and technical development are well defined, properly managed and mature enough to support the initiation of preliminary design activities. Additionally, in June 2007, the TSAT program released a Request for Proposals (RFP) on the space segment development contract. The Air Force is reviewing bids from multiple contractors.

TSAT is extending its risk reduction efforts with a revised goal of a KDP-B review in October 2008. TSAT awarded the space segment contract in FY 2009, starting its satellite design work and continuing the development of the TMOS segment. The launch of the first TSAT is targeted for 3rd Quarter, FY 2018.

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. The projects include test ranges, maintenance support of laboratories, operation and maintenance of test aircraft, and studies and analyses in support of the research and development program.

An example of Air Force RDT&E management support is the Major Test and Evaluation Investment program, which funds the planning, improvements and modernization for three MRTFB Activities that are national test assets with unique test facilities/capabilities operated and maintained by the Air Force for the DoD test and evaluation missions, and is available to others having a requirement for their unique capabilities. Many efforts are contained within the Air Force Major Test and Evaluation Investment program. An example of a project accomplished in

this program is the Armament/Munitions Digital Modeling and Simulation project. The objectives of the AMDMS project were to develop, verify, and validate a set of reusable models/simulations to support future air armament T&E through the systematic selection of models developed by Laboratories, Air Armament Center (AAC) components, and contractors. It accomplished this by improving existing digital modeling and simulation (DMS) tools, and developing new DMS capabilities that were interoperable, integrateable, portable; and with a full range of resolution and response time to meet the needs of the T&E customer.

Major accomplishments of the AMDMS project spanned the five thrust areas of Endgame, Survivability/Effectiveness, Aircraft Compatibility, Directed Energy, and Hypersonics. Perhaps the premier product of the project was the development of an engineering-level M&S software framework called Endgame Framework (EF), providing an advanced pre-test prediction and post-test analysis capability unlike any other. The EF manages the ever-increasing complexity of smart weapon system lethality/target vulnerability analysis by allowing interoperable and extensible endgame simulations. Legacy, previously stand-alone methodologies such as Modular Effectiveness Vulnerability Assessment (MEVA), Point-burst Damage Assessment Model (PDAM), Fast Air Target Encounter Penetration (FATEPEN), and Uncontained Engine Debris Damage Assessment Model (UEDDAM) are just a few of the methodologies that were upgraded during the AMDMS project and integrated within the EF, providing a unique lethality/vulnerability analytical capability. Other analytical endgame methodologies, such as Laser Effects Weapon Analysis Tool (LEWAT) and Radio Frequency Propagation, Transmission, and Effects Code (RFPROTEC), supporting non-traditional damage effects such as those found in the directed energy area, were also upgraded and integrated within the EF environment. Some of the lethality/vulnerability methodologies supporting joint warfighter weapon engineering requirements, such as the Joint Munition Effectiveness Model (JMEM) and Joint RF Effects Model (JREM), also reaped benefits indirectly from the improvement and modernization efforts of the AMDMS project. Other accomplishments as part of the Aircraft Compatibility thrust area, supporting both T&E, and an added benefit to warfighter requirements was the improvements made to the SEEK EAGLE capabilities. Significant upgrades were made to the six degree-of-freedom simulation to support store separation analysis and flight certification, as well as improvements to the Computational Fluid Dynamics (CFD) simulation capability and automation of the computerized physical fit (CPF) methodology. Additional SEEK EAGLE capability upgrades included the development of a computational Electro-Magnetics Effects (EME) tool for counter-electronic weapons analysis and a finite element radar cross section tool for high powered microwave engagement analysis (TEMPUS). Under the Survivability/Effectiveness thrust area, major improvements to the integrated threat missile and radar system as part of the Joint Gulf Range Threat Integration (JGRTI) environment were completed. These improvements provide a live/virtual/constructive distributed simulation capability that supports Blue aircraft susceptibility and survivability analysis in the munitions development T&E, as well as joint training exercise environments. Finally, in support of the Hypersonics thrust area managed by the AMDMS partner at AEDC, improvements to test instrumentation and hypersonics engineering methodologies were completed. These addressed known deficiencies in wind-tunnel capabilities to satisfy new T&E requirements to support hypersonic munitions development.



Another example of Air Force RDT&E management support is the Threat Simulator Development program, which funds planning, improvements, and modernization of Electronic Warfare (EW) T&E capabilities. It supports EW ground test resources and Electronic Combat Intel. The Installed Test Integration Program (ITIP) is an accomplishment for this program. The 412th Test Wing, EW Group, located at the Air Force Flight Test Center, Edwards AFB, California, has developed an integrated, virtual battlespace essential for testing advanced state of the art systems. The Installed Test Integration Program (ITIP) provides the Avionics Test & Integration Complex (ATIC) with capabilities that are essential for successful testing of electronic combat systems and software intensive and highly integrated avionics platforms. The ATIC includes an anechoic chamber (Benefield Anechoic Facility [BAF]) along with equipment and laboratories that are capable of testing avionics systems installed on their host platforms. The BAF is host to a multitude of EW test and evaluation (T&E) resources, to include threat signal generation, communication, navigation, and identification, as well as capabilities and instrumentation to monitor, measure, and control the test environment. The ITIP integrates and enhances existing ATIC EW T&E resources to create a “realistic” electromagnetic test environment with correlated time and space effects in the RF spectrum. This virtual and constructive warfare T&E environment will be used in the development, test, and evaluation of highly advanced, integrated weapon systems.

In FY10 the ITIP achieved the pinnacle of milestones – achieving operational status. The transition and turnover of the ITIP “system” to the using organization, 772d Test Squadron, was finalized in March 2010. This marked the end of a very successful improvement and modernization program within the EW Group. The ITIP not only provided a very much anticipated and needed test capability, but also upgraded several key elements of the BAF T&E infrastructure. First and foremost, the ITIP consolidated and upgraded the BAF test control room (TCR). Previous to the ITIP, test execution and control in the BAF was conducted from several sites. This was sufficient for small and simple test efforts. But as the complexity of the system under test (SUT) increased, so did the need for a greater ability to monitor, measure, analyze, and control the test environment. Under the ITIP, the BAF test operations center was expanded, a variety of equipment was collocated and replaced with state-of-the-art, and the new TCR became a reality. The TCR went operational in 2007. In concert with the upgrades to the TCR, improvements to the BAF capability to capture and process test data were also completed under the ITIP. Modifications to the data capture, processing, and analysis laboratory provided a number of improvements in operations efficiencies: 1) eliminating shared resources provided the ability to conduct real-time data capture and post-test data analysis simultaneously; 2) consolidating equipment racks freed up floor space to allow installation of additional work stations for data processing and analysis; 3) upgrades to computer hardware and software to permit faster and more integrated operations. The new data lab went operational in 2008. Overall, the ITIP has provided significant improvements in the way and means in which testing is conducted in the BAF. The major accomplishment of the ITIP was development of the ITIP architecture. The architecture was designed to meet the requirements of integrating a variety of stimulators, instrumentation and simulations that have been developed without the benefit of a unifying architecture dictating the individual designs. The overall objective of the ITIP architecture was to integrate and enhance the existing Electronic Combat Integrated Test (ECIT)

Operational Systems Development:

The Air Force's operational system efforts include projects in support of development acquisition programs or upgrades. The F-22 Raptor program continued full rate production, and will maintain its role as the key enabler of joint air dominance through an incremental modernization program funded through Operational Systems Development activities. Through FY 2010 167 aircraft have been delivered. Increment 2 is resident in delivered aircraft and represents the first upgrade over initial operational capability. 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. FY 2010 activities included development of the Increment 3 suite. DT is essentially finished and FOT&E 3 will begin early in CY 2011. A Capability Requirements Review (CRR) for Increment 3.2 focused on dramatically improving the F-22A Raptor's Air-to-Air and Air-to-Ground attack capabilities with AIM-9X, AIM-120D, full, Small Diameter Bomb capability, electronic protection updates.

The Advanced Medium Range Air-to-Air Missile (AMRAAM) Phase 3 (AIM-120C-7) was approved for fielding in December 2007. Production for this variant began in 4th Quarter, FY 2004, and was completed in 3rd Quarter, FY 2009. The AIM-120C-7 provides a major upgrade over the AIM-120C-6 guidance section, particularly in the use of circular processor cards over previously used rectangular cards. These cards provide significant space savings within the missile for added capability, in addition to providing greater processing power.

AMRAAM Phase 4 (AIM-120D) builds on the AIM-120C-7 capability and is progressing. This new AIM-120D missile will add a GPS/INU and a 2-way Data Link to enhance accuracy and control, and thus, increase weapon effectiveness. In addition, the AIM-120D will have increased range and third party targeting which expands the High Off-boresight launch envelope. The SDD contract was awarded in December 2003. Captive flight testing is going-on on the F/A-18C/D and F-15C/D. EMD was accomplished in September 2009 with the completion of the Functional Configuration Audit (FCA). Proof-of-design units and proof-of-manufacturing units are being used to support simulation/integration labs, production test equipment development, and ground and flight tests. Production for AIM-120D started in 2nd Quarter, FY 2009 and will continue through FY 2024. Operational testing began in Jan 10 with a combined DT/OT program to mature missile and aircraft operational flight programs (OFP). Two of three DT/OT shots were successfully accomplished – one a direct hit and the other a lethal fuze. The third DT/OT shot and the Operational Test Readiness Review (OTRR) has been delayed until several issues have been resolved and the program receives Program Executive Officer (PEO) approval to proceed.

The Small Diameter Bomb II (SDB II) program is a joint Air Force/Navy interest program that will use a tri-mode seeker and weapon data link to fill a critical capability gap by providing a stand-off, target classification and in-weather capability against moving targets. The SDB II weapon program will retain the SDB I legacy capability against fixed surface target, improved GPS anti-jam capability and denied sanctuary of weather for adversary moving targets. The 42-month Risk Reduction competition between two contractors that commenced in May 2006 to



mature critical technologies for an all-up-round design ended in October 2009. Following the Risk Reduction Phase, a single contractor was selected to complete an approximately 59 month EMD contract with production options. The Milestone B review occurred 27 Jul 2010, with Critical Design Review scheduled for the first half of FY11. Production for SDB II is scheduled to start FY 2014 and continue through FY2023. Required Assets Available on the F-15E is planned for FY2016.

The SDB I Focused Lethality Munition (FLM), a variant of SDB I, is a Joint Capabilities Technology Development (JCTD) program that effectively demonstrates the military utility for prosecuting high-value targets by generating near-field blast effects in a high collateral risk environment. The SDB I FLM has a composite-cased warhead with a Multi-phase Blast Explosive to reduce fragmentation effects while increasing blast effects. This low collateral damage warhead was integrated into the SDB I weapon. The Military Utility Assessment was successfully completed in June 2008 with positive feedback in all areas. The FLM capability will increase combatant commanders' strike options, particularly in an urban environment, while decreasing collateral damage risk. This JCTD fully leverages the SDB I program to facilitate rapid acquisition, with delivery of 50 residual assets in February 2008. An additional 100 residual assets were delivered in FY10, with the final 100 scheduled for delivery in FY11.

Reaper (MQ-9) UAV Program

The MQ-9 Reaper UAV program is continuing development of the capability to instantaneously derive and disseminate JDAM-quality coordinates from the aimpoint of its electro-optical/infrared (EO/IR) full motion video sensor. Sensor improvements include development of a precise attitude reference system coupled with an off-the-shelf two color eye-safe laser rangefinder/designator plus development of an accurately timed metadata system. Aircraft will be modified with a new guidance system incorporating differential GPS. Fielding is scheduled to begin in FY13. Follow-on development will provide a capability for instantaneous JDAM-quality data for all pixels within the EO/IR image.

Liberty Project Aircraft (MC-12W) program:

In FY2010, the Air Force delivered 30 MC-12W aircraft to the warfighter for deployment to OEF/OIF. These aircraft are flown by three expeditionary reconnaissance squadrons and provide critical full motion video and signals intelligence information real-time to commanders and ground forces in Afghanistan and Iraq. The first aircraft was delivered seven months after contract award and deployed to OIF two months later. All 30 aircraft delivered to the theater within 13 months vastly increasing the amount of full motion video available and augmenting the U.S. Air Force's unmanned aircraft. This delivery made the MC-12W the fastest weapon system delivered from concept to combat since World War II. As of 1 September 2010, the deployed Liberty aircraft have logged 6,877 combat sorties in direct support of CENTCOM.

Global Hawk (RQ-4) Test program:

In FY2010 the Global Hawk flight test program moved sensor production acceptance criteria flights to Beale AFB. This allowed the Combined Test Force to concentrate on development flight testing at Edwards AFB. The first Block 40 aircraft completed initial envelope expansion flight tests without the Radar Technology Insertion Program (RTIP) sensor in FY 2010. RTIP sensor development flight testing on the Proteus aircraft will complete in the fall 2010. RTIP sensor integration, ground checkout and acceptance testing on the Block 40 aircraft will follow. In support of JUON 336, the Battle Field Airborne Communications Node (BACN) development and flight testing was accelerated on two Block 20 aircraft in order to provide much needed communications support to the warfighter. Those BACN aircraft are scheduled to deploy to CENTCOM in the early fall.

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 Single Integrated Air Picture (SIAP) 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. Block 40/45 will begin modifying its first LRIP aircraft in Nov 2010. The Next Generation Identification Friend or Foe (NGIFF) effort provides AWACS with a secure Mode 5 capability. NGIFF continued software development for the Block 30/35 aircraft and began development and operational testing. The Engineering and Manufacturing Development (EMD) contract award for the Block 40/45 version of NGIFF is planned for Oct 2010. The AWACS program completed technology development for the Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification and plans to award an EMD contract in FY11. 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. The AWACS program is also continuing risk reduction efforts on multiple fronts to satisfy the high bandwidth and Beyond Line of Sight (BLOS) requirements of the battle space. These efforts will assure that AWACS remains a relevant combat partner on the joint battlefield.



	2011	2012	2013	2014	2015
Operating expenses	3,700	31.0	7,606	4	67.0
	(1,190)	(10.6)	(2,724)	(23.8)	(1,200)
	(64)	(0.6)	(84)	(0.7)	(90)
	94	0.8	155	1.3	299
	597	14.3	—	—	—
	37	3.9	(2,653)	(23.2)	(1,048)
	7.4	731	6.4	(461)	—
	(3.5)	<u>\$ (3,384)</u>	<u>(29.6)</u>	<u>\$ (587)</u>	<u>(0.18)</u>
	<u>\$ (1.06)</u>				

General Fund

Fiscal Year 2010

Required Supplementary Information



U.S. AIR FORCE

General Fund

Required Supplementary Information

Department of Defense

Department of the Air Force

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

BUDGETARY FINANCING ACCOUNTS

BUDGETARY RESOURCES

	Research, Development, Test & Evaluation	Procurement	Military Personnel
Unobligated balance, brought forward, October 1	\$ 3,712,166	\$ 20,879,564	\$ 353,862
Recoveries of prior year unpaid obligations	601,152	955,084	203,541
Budget authority			
Appropriation	28,325,046	41,983,395	34,930,165
Spending authority from offsetting collections			
Earned			
Collected	3,512,846	526,486	396,411
Change in receivables from Federal sources	(26,791)	375	159,335
Change in unfilled customer orders			
Advance received	(18,722)	(7,933)	0
Without advance from Federal sources	156,055	(10,827)	(3,726)
Subtotal	31,948,434	42,491,496	35,482,185
Nonexpenditure transfers, net, anticipated and actual	(216,994)	(246,429)	548,197
Permanently not available	(623,881)	(1,571,613)	(69,924)
Total Budgetary Resources	\$ 35,420,877	\$ 62,508,102	\$ 36,517,861

Status of Budgetary Resources:

Obligations incurred:

Direct	\$ 26,879,912	\$ 35,752,185	\$ 35,688,761
Reimbursable	3,715,291	416,248	481,016
Subtotal	30,595,203	36,168,433	36,169,777

Unobligated balance:

Apportioned	4,451,289	25,261,775	115,018
Exempt from apportionment	0	0	0
Subtotal	4,451,289	25,261,775	115,018

Unobligated balance not available

	374,385	1,077,892	233,066
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Total status of budgetary resources

	\$ 35,420,877	\$ 62,508,100	\$ 36,517,861
--	---------------	---------------	---------------

Change in Obligated Balance:

Obligated balance, net

Unpaid obligations, brought forward, October 1	\$ 11,145,820	\$ 32,496,279	\$ 2,507,076
Less: Uncollected customer payments	(753,852)	(90,785)	86,560
from Federal sources, brought forward, October 1			
Total unpaid obligated balance	10,391,968	32,405,494	2,593,636

Obligations incurred net (+/-)	30,595,203	36,168,434	36,169,777
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Less: Gross outlays	(29,709,162)	(38,889,186)	(35,745,430)
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Obligated balance transferred, net

Actual transfers, uncollected customer	0	0	0
payments from Federal sources (+/-)			
Total Unpaid obligated balance transferred, net	0	0	0

Less: Recoveries of prior year unpaid obligations, actual	(601,152)	(955,084)	(203,541)
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Change in uncollected customer	(129,264)	10,452	(155,609)
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Change in uncollected customer

payments from Federal sources (+/-)			
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Obligated balance, net, end of period

Unpaid obligations	11,430,709	28,820,443	2,727,881
Less: Uncollected customer payments (+/-)	(883,116)	(80,332)	(69,049)
from Federal sources (-)			
Total, unpaid obligated balance, net, end of period	10,547,593	28,740,111	2,658,832

Net Outlays

Net Outlays:

Gross outlays	29,709,162	38,889,186	35,745,430
Less: Offsetting collections	(3,494,123)	(518,553)	(396,411)
Less: Distributed Offsetting receipts	0	0	0
Net Outlays	\$ 26,215,039	\$ 38,370,633	\$ 35,349,019

ANNUAL FINANCIAL STATEMENT 2010

General Fund Required Supplementary Information

Family Housing & Military Construction	Operations, Readiness & Support	2010 Combined	2009 Combined
\$ 2,267,313	\$ 1,998,442	\$ 29,211,348	\$ 26,676,890
110,274	2,703,836	4,573,888	4,093,396
2,881,112	57,302,447	165,422,165	163,975,253
6,668	5,859,999	10,302,406	9,302,479
0	86,132	219,051	324,746
18,387	18,051	9,782	147,616
0	150,834	292,336	80,913
2,906,167	63,417,463	176,245,740	173,831,007
0	1,960	86,734	823,808
(166,367)	(1,266,266)	(3,698,050)	(3,833,813)
<u>\$ 5,117,387</u>	<u>\$ 66,855,435</u>	<u>\$ 206,419,660</u>	<u>\$ 201,591,288</u>
\$ 2,512,982	\$ 58,422,879	\$ 159,256,720	\$ 162,319,819
16,473	6,443,642	11,072,669	10,060,121
2,529,455	64,866,521	170,329,389	172,379,940
2,505,309	196,289	32,529,681	26,091,928
0	13,729	13,729	4,480
2,505,309	210,018	32,543,410	26,096,408
82,623	1,778,895	3,546,861	3,114,940
<u>\$ 5,117,387</u>	<u>\$ 66,855,434</u>	<u>\$ 206,419,660</u>	<u>\$ 201,591,288</u>
\$ 3,439,283	\$ 26,508,957	\$ 76,097,415	\$ 67,813,258
0	(1,699,222)	(2,457,299)	(2,051,639)
3,439,283	24,809,735	73,640,116	65,761,619
2,529,455	64,866,521	170,329,389	172,379,940
(2,180,579)	(61,320,922)	(167,845,279)	(160,002,387)
0	0	(2)	0
0	0	(2)	0
(110,274)	(2,703,836)	(4,573,888)	(4,093,396)
0	(236,966)	(511,385)	(405,660)
3,677,885	27,350,719	74,007,637	76,097,415
0	(1,936,188)	(2,968,686)	(2,457,299)
3,677,885	25,414,531	71,038,951	73,640,116
2,180,579	61,320,922	167,845,279	160,002,387
(25,055)	(5,878,049)	(10,312,190)	(9,450,094)
0	(250,035)	(250,035)	(104,099)
<u>\$ 2,155,524</u>	<u>\$ 55,192,838</u>	<u>\$ 157,283,054</u>	<u>\$ 150,448,194</u>



DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

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

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

HERITAGE ASSETS For Fiscal Year Ended September 30, 2010					
(a)	(b)	(c)	(d)	(e)	(f)
Heritage Asset Categories	Measurement Quantity	As of 9/30/09	Additions	Deletions	As of 9/30/10
Buildings and Structures	Each	10,250	0	1,298	8,952
Archaeological Sites	Sites	1,848	347	0	2,195
Museum Collection Items (Objects, Not Including Fine Art)	Each	122,201	5,047	1,492	125,756
Museum Collection Items (Fine Art)	Each	1,283	42	64	1,261

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

As of September 30, 2010, the Air Force considers 8,952 buildings and structures as National Register of Historic Places (NRHP) listed and eligible “Heritage Assets.” Many of these are Capehart-Wherry Era (CWE) houses (3,886), which are subject to a 2008 nationwide Program Comment (with the Advisory Council on Historic Preservation) that allows the Air Force to demolish or otherwise remove all but three CWE houses from the Air Force Inventory. Demolition continues, with 1,298 CWE houses razed in FY 2010 (from the total 5,184 reported at the end of FY 2009).

The Air Force has 5,066 non-CWE buildings and structures considered Heritage Assets. Of these, 1,314 are listed on NRHP and 3,752 are eligible for listing on NRHP.

Beginning March 2007, Air Force successfully completed three service-wide data calls to validate Heritage Asset information via populating the Automated Civil Engineer System-Real Property (ACES-RP) database (i.e., Air Force's Real Property Inventory). ACES-RP now designates/classifies the historic status of heritage assets (~11,000 historic buildings, structures, and districts) and appears to meet requirements. ACES-RP was initially designed to identify only those heritage assets/historic properties that were nominated and formally listed on the NRHP. Heritage assets now are considered listed and eligible buildings and structures. ACES-RP contains validated heritage asset data for 12 Historic Status Codes defined by the DoD.

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 National Historic Preservation Act, Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset buildings and structures.

2. Archaeological Sites

As of September 30, 2010, the Air Force has 2,195 archaeological sites listed on or eligible for listing on the NRHP. Eligible and listed sites (Heritage Assets) are protected from vandalism and looting, and are maintained in good condition on Air Force installations. Heritage Asset archaeological sites are subject to NRHP Section 106 review and consultation when affected by Air Force undertakings. Section 106 reviews ensure State Historic Preservation Officers, tribal, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset archaeological sites. All Heritage Asset and unevaluated archaeological sites are managed to prevent significant losses due to erosion and other natural causes.

The table shows 347 archaeological sites were added to the heritage asset list during FY 2010.

3. 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 historic collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements properly delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. During FY 2010, 5,047 objects have been added to the collection. These additions are a result of private donations, transfers from other federal entities, curatorial administrative actions, and the documentation of previously unreported artifacts at Air Force activities worldwide. New accessions include significant artifacts from current operations in Iraq and Afghanistan. One-thousand, four-hundred and ninety-two 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.

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 constantly improving exhibit/storage conditions. During FY 2010 restoration were completed on the museum's F-84E "Thunderjet" which is now a centerpiece exhibit in the newly completed Korean War Gallery. Detailed restoration work has continued on the iconic Boeing B-17D "Swoose" and Boeing B-17F "Memphis Belle." Work has also commenced on a Sikorsky HH-3 "Jolly Green Giant" helicopter with a notable combat history as part of the museum's upgrade of the War in Southeast Asia Gallery.

4. Museum Collection Items, Fine Art

The art collection contains original oils, drawings, sketches and sculptures. Since the last report the Air Force Art Collection has received 42 newly donated paintings. Sixty-four items were determined not to meet fine art criteria and transferred to reference library holdings or were transferred to other federal historical activities.

The collection is maintained and kept in good condition. Each year during the annual inventory, Air Force Art Program Office requests the condition of the paintings as well. Maintenance continues to be a constant.

Stewardship Land

STEWARDSHIP LAND For Fiscal Year Ended September 30, 2010 (Acres in Thousands)					
(a)	(b)	(c)	(d)	(e)	(f)
Facility Code	Facility Title	As of 9/30/09	Additions	Deletions	As of 9/30/10
9110	Government Owned Land	1,501	181	0	1,682
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	7,587	20	0	7,607
9130	Licensed and Permitted Land	138	95	0	233
9140	Public Land	191	1	0	192
9210	Land Easement	109	53	0	162
9220	In-leased Land	86	6	0	92
9230	Foreign Land	290	31	0	321
Grand Total					10,289
TOTAL - All Lands					2,490
TOTAL – Stewardship Lands					7,799

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 7,799,000 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, 2010 (In Millions of Dollars)			
Property Type	Current Fiscal Year (CFY)		
	1. Plant Replacement Value	2. Required Work Deferred Maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$136,698	\$21,693	16%
2. Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	\$1,547	\$768	50%
3. Category 3: Buildings, Structures, and Utilities (Heritage Assets)	\$9,585	\$1,031	11%

Use of Q-Rating versus Facilities Sustainment Model (FSM) to reflect Deferred Sustainment

The use of Q-Rating as a basis for calculated deferred maintenance is not prudent. The Service's Q-Rating database has not sufficiently matured compared with the FSM dataset.

At this stage of Q-Rating planning and development, facility Q-Ratings cannot be readily tied to actual obligations nor do they provide a consistent service-wide metric based on commercial standards.

Based on previous submissions, the use of FSM to benchmark facility requirements has proven itself in the Air Force Corporate Structure (AFCS) process by yielding data constancy and high fidelity. FSM can be linked to actual obligations, is consistent across the services, and uses commercial standards in its development, which provides the stability and credibility needed to defend program funding requirements in AFCS.

The inclusion of the "A" factor to represent "acceptable operating condition" is not currently valid. At this time, there is no dataset which can be used to underpin target Q-Rating percentages or to identify acceptable operating conditions for specific Air Force facilities.

At A=100%, the FY 2010 accumulated deferred sustainment based on Q-Ratings is \$21.7 billion as noted above. Although a backlog of \$21.7 billion obviously appears significant, this considerably large requirement adds little value to AFCS decision-making process. From our experience, AFCS will immediately question such a large backlog if used to defend our budget shortfalls. Variable "A" factors would need to be developed to make the proposed deferred maintenance concept feasible.

Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2010 (in Millions of Dollars)			
Major Categories	OP30 Amounts	Adjustments	Total
1. Aircraft	\$1,189	\$0	\$1,189
2. Automotive Equipment	\$19	\$0	\$19
3. Combat Vehicles	\$0	\$0	\$0
4. Construction Equipment	\$0	\$0	\$0
5. Electronic and Communications Systems	\$66	\$0	\$66
6. Missiles	\$49	\$0	\$49
7. Ships	\$0	\$0	\$0
8. Ordnance Weapons and Munitions	\$20	\$0	\$20
9. General Purpose Equipment	\$9	\$0	\$9
10. All Other Items Not Identified to Above Categories	\$7	\$0	\$7
Total	\$1,359	\$0	\$1,359

The figures presented are projected deferred maintenance amounts for FY 2010 as reported in the FY 2012 Program Budget Review. FY 2010 Overseas Contingency Operations (OCO) supplemental actual is not available, but projected OCO funding is used in calculating projected unfunded/deferred. Adjustment totals include Deferred Funding for Contract Logistics Support which may include more than just maintenance. These totals presently cannot be broken out by major categories.



General Fund
Fiscal Year 2010
Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 09, 2010

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

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2010 and FY 2009
Basic Financial Statements (Report No. D-2011-007)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Air Force General Fund Consolidated Balance Sheet as of September 30, 2010 and 2009, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Air Force management. The Air Force is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Air Force General Fund FY 2010 and FY 2009 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force General Fund FY 2010 and FY 2009 Basic Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Air Force financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2010. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,^{*} to determine whether material amounts on the financial statements were presented fairly.

^{*} OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and the Air Force has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the Basic Financial Statements. Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered the Air Force internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified material weaknesses continued to exist in the following areas.

- Financial Management Systems
- Fund Balance with Treasury
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Government-Furnished Material and Contractor-Acquired Material
- Environmental Liabilities
- Statement of Net Cost
- Intragovernmental Eliminations
- Other Accounting Entries
- Reconciliation of Net Cost of Operations to Budget

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.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



The following previously identified significant deficiencies continued to exist.

- Accounts Receivable Financial Reporting
- Accounts Payable Financial Reporting
- Reimbursable Programs

Internal control work that we conducted as part of our prior audits did not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies and material weaknesses in internal control.

The Air Force reported the above weaknesses in its FY 2010 Statement of Assurance, except for the material weaknesses involving the Statement of Net Cost and Reconciliation of Net Cost of Operations to Budget and the significant deficiency involving Reimbursable Programs.

Summary of Compliance With Laws and Regulations

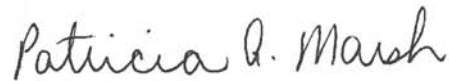
We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Air Force complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. Air Force officials expressed their continuing commitment to addressing the problems this report outlines.



Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated



Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiencies, which could adversely affect the Air Force financial management operations.

Previously Identified Material Weaknesses

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 that transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure 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 them 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.

Fund Balance With Treasury

During an evaluation of internal controls, the Air Force discovered and confirmed deficiencies in the reconciliation of the Fund Balance with Treasury between the Air Force accounting records and the corresponding balances reported by Treasury. The Air Force did not have assurance that it can reconcile its reported balance of Fund Balance with Treasury to the balance the Treasury maintains because it currently did not receive transaction-level data from other DOD Components processing collection and disbursement data on its behalf.

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-Furnished Material and Contractor-Acquired Material

Statement of Federal Financial Accounting Standards No. 11, "Amendments to 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 hands 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 currently 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 their 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 U.S. 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 could 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.

Other 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 has not properly recorded 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.

Previously Identified Significant Deficiencies

Previously identified significant deficiencies continued to exist in the following areas.

Accounts Receivable Financial Reporting

The Air Force could not ensure the accuracy of its Accounts Receivable financial statement line item because of weaknesses in the intragovernmental trading partner eliminations, Foreign Military Sales, and supporting documentation. These deficiencies resulted in the inability to properly reconcile and support the validity of Accounts Receivable.

Accounts Payable Financial Reporting

The Air Force could not ensure the accuracy of the amount of Accounts Payable reported in the Basic Financial Statements because of the financial system internal control weaknesses. Because of these weaknesses, the Air Force could not support entries to Accounts Payable or reconcile the reported balance to transaction detail.

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. SFFAC 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 was not always able to identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were not properly billed to the customer.

These financial management deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determining compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Air Force complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2010, the Air Force did not fully comply with FFMIA. The Air Force acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2010.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341[1990]) limits the Air Force and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force and its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. 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 2010, the Air Force reported one case of violation of ADA. Therefore, the Air Force did not comply with 31 U.S.C. §§ 1341 and 1351.

DOD internal guidance limits the time from identification to reporting of ADA violations to 12 months. Our review of the Air Force ADA violations reported in FY 2010 showed that the Air Force did not process the one ADA violation case within 12 months.



Audit Disclosures

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on April 7, 2010, that the Air Force 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. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act), Federal Credit Reform Act, and the Pay and Allowance System for Civilian Employees.

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

Working Capital Fund Principal Statements

Fiscal Year 2010

The FY 2010 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, 2010, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2009.

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, 2010 and 2009 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, 2010 and 2009. 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, 2010 and 2009.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2010 and 2009, the status of these resources at September 30, 2010 and 2009, and the outlay of budgetary resources for the years ended September 30, 2010 and 2009.

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."

**U.S. AIR FORCE****Working Capital Fund**

Principal Statements

Department of Defense**Air Force Working Capital Fund****CONSOLIDATED BALANCE SHEET****As of September 30, 2010 and 2009****(\$ in Thousands)**

	<u>2010 Consolidated</u>	<u>2009 Consolidated</u>
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 311,557	\$ 697,367
Accounts Receivable (Note 5)	819,796	718,662
Other Assets (Note 6)	0	420
Total Intragovernmental Assets	\$ 1,131,353	\$ 1,416,449
Accounts Receivable, Net (Note 5)	13,057	152,109
Inventory and Related Property, Net (Note 9)	28,294,357	30,059,338
General Property, Plant and Equipment, Net (Note 10)	1,353,836	1,293,737
Other Assets (Note 6)	525,087	402,703
TOTAL ASSETS	<u>\$ 31,317,690</u>	<u>\$ 33,324,336</u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 144,788	\$ 153,539
Other Liabilities (Note 15 & 16)	18,180	13,531
Total Intragovernmental Liabilities	\$ 162,968	\$ 167,070
Accounts Payable (Note 12)	\$ 715,535	\$ 796,397
Military Retirement and Other Federal	198,905	193,710
Employment Benefits (Note 17)		
Other Liabilities (Note 15 and Note 16)	429,769	496,773
TOTAL LIABILITIES	<u>\$ 1,507,177</u>	<u>\$ 1,653,950</u>
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	24,173	1,016
Cumulative Results of Operations - Other Funds	29,786,340	31,669,370
TOTAL NET POSITION	<u>\$ 29,810,513</u>	<u>\$ 31,670,386</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 31,317,690</u>	<u>\$ 33,324,336</u>

The accompanying notes are an integral part of these financial statements.

Department of Defense

Air Force Working Capital Fund

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Consolidated	2009 Consolidated
Program Costs		
Gross Costs	\$ 11,822,543	\$ 10,534,391
Operations, Readiness & Support	11,822,543	10,534,391
(Less: Earned Revenue)	(10,328,350)	(10,380,069)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes	1,494,193	154,322
for Military Retirement Benefits		
Net Cost of Operations	<u>\$ 1,494,193</u>	<u>\$ 154,322</u>



U.S. AIR FORCE

Working Capital Fund

Principal Statements

Department of Defense

Air Force Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Earmarked Funds	2010 All Other Funds	2010 Eliminations
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 0	\$ 31,669,370	\$ 0
Prior Period Adjustments:			
Corrections of errors (+/-)	0	0	0
Beginning balances, as adjusted	0	31,669,370	0
Budgetary Financing Sources:			
Appropriations used	0	46,100	0
Transfers-in/out without reimbursement	0	(297,535)	0
Other Financing Sources:			
Transfers-in/out without reimbursement (+/-)	0	(310,795)	0
Imputed financing from costs absorbed by others	0	188,664	0
Other (+/-)	0	(15,271)	0
Total Financing Sources	0	(388,837)	0
Net Cost of Operations (+/-)	0	1,494,193	0
Net Change	0	(1,883,030)	0
Cumulative Results of Operations	0	29,786,340	0
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 0	\$ 1,016	\$ 0
Beginning balances, as adjusted	0	1,016	0
Budgetary Financing Sources:			
Appropriations received	0	69,443	0
Other adjustments (rescissions, etc)	0	(186)	0
Appropriations used	0	(46,100)	0
Total Budgetary Financing Sources	0	23,157	0
Unexpended Appropriations	0	24,173	0
Net Position	0	29,810,513	0

The accompanying notes are an integral part of these financial statements.

ANNUAL FINANCIAL STATEMENT 2010

Working Capital Fund Principal Statements

2010 Consolidated	2009 Earmarked Funds	2009 All Other Funds	2009 Eliminations	2009 Consolidated
\$ 31,669,370	\$ 0	\$ 35,253,245	\$ 0	\$ 35,253,245
0	0	(3,420,275)	0	(3,420,275)
31,669,370	0	31,832,970	0	31,832,970
46,100	0	61,697	0	61,697
(297,535)	0	(251,274)	0	(251,274)
(310,795)	0	(64,772)	0	(64,772)
188,664	0	151,466	0	151,466
(15,271)	0	93,605	0	93,605
(388,837)	0	(9,278)	0	(9,278)
1,494,193	0	154,322	0	154,322
(1,883,030)	0	(163,600)	0	(163,600)
29,786,340	0	31,669,370	0	31,669,370
\$ 1,016	\$ 0	\$ 1,248	\$ 0	\$ 1,248
1,016	0	1,248	0	1,248
69,443	0	61,465	0	61,465
(186)	0	0	0	0
(46,100)	0	(61,697)	0	(61,697)
23,157	0	(232)	0	(232)
24,173	0	1,016	0	1,016
29,810,513	0	31,670,386	0	31,670,386

The accompanying notes are an integral part of these financial statements.



U.S. AIR FORCE

Working Capital Fund

Principal Statements

Department of Defense

Air Force Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	2010 Combined	2009 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	\$ 373,638	\$ 343,595
Recoveries of prior year unpaid obligations	33,765	89,013
Budget authority		
Appropriation	69,443	61,465
Contract authority	7,757,396	7,255,839
Spending authority from offsetting collections		
Earned		
Collected	11,598,599	11,599,508
Change in receivables from Federal sources	(13,963)	(62,179)
Change in unfilled customer orders		
Advance received	(11,153)	(98,643)
Without advance from Federal sources	206,018	(247,280)
Subtotal	19,606,340	18,508,710
Nonexpenditure transfers, net, anticipated and actual	(297,535)	(251,274)
Permanently not available	(7,103,433)	(7,078,077)
Total Budgetary Resources	\$ 12,612,775	\$ 11,611,967
Status of Budgetary Resources:		
Obligations incurred:		
Reimbursable	12,080,367	11,238,329
Subtotal	12,080,367	11,238,329
Unobligated balance:		
Exempt from apportionment	532,408	373,638
Subtotal	532,408	373,638
Total status of budgetary resources	\$ 12,612,775	\$ 11,611,967
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 7,522,917	\$ 7,946,887
Less: Uncollected customer payments	(3,701,113)	(4,010,572)
from Federal sources, brought forward, October 1		
Total unpaid obligated balance	3,821,804	3,936,315
Obligations incurred net (+/-)	12,080,367	11,238,329
Less: Gross outlays	(11,744,979)	(11,573,286)
Less: Recoveries of prior year unpaid obligations, actual	(33,765)	(89,013)
Change in uncollected customer	(192,055)	309,459
payments from Federal sources (+/-)		
Obligated balance, net, end of period		
Unpaid obligations	7,824,540	7,522,917
Less: Uncollected customer payments	(3,893,168)	(3,701,113)
from Federal sources (-)		
Total, unpaid obligated balance, net, end of period	3,931,372	3,821,804
Net Outlays		
Net Outlays:		
Gross outlays	11,744,979	11,573,286
Less: Offsetting collections	(11,587,446)	(11,500,865)
Net Outlays	\$ 157,533	\$ 72,421

The accompanying notes are an integral part of these financial statements.

Working Capital Fund

Fiscal Year 2010

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 furnished and contractor acquired materiel and equipment may not be accurately reported, (5) AFWCF General Property, Plant, and Equipment (PP&E) may not be accurately valued, (6) operating materials 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.

Effective FY 2009, 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. The CSAG combines the activities of the previous Material Support Division (MSD) of the Supply Management Activity Group and the Depot Maintenance Activity Group (DMAG). Under CSAG, business operations formerly known as DMAG are now related to the Maintenance Division. Likewise, business operations formerly known as MSD are now referred to as the Supply Division.

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 the AFWCF and their 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 Military Service and Defense Agency 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 Operating Materiel and Supplies (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 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 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. Foreign Currency

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Based upon analysis of past collection experience, AFWCF does not recognize allowances for uncollectible accounts due from the public. AFWCF policy is that all Nonfederal Receivables (From the Public) are collected. 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 at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

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 Statement of Federal Financial Accounting Standards (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" with a completion date of year-end FY 2011 reporting.

Related property includes OM&S which is valued at 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; and therefore DoD is primarily using the capitalization threshold of \$100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, 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 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.

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 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 intransit and reduce nonfederal accounts payable.

Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Significant Events

Not Applicable.

1.Y. Fiduciary Activities

Not Applicable.



Note 2. Nonentity Assets

As of September 30	2010	2009
(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	693	425
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 693	\$ 425
3. Total Nonentity Assets	\$ 693	\$ 425
4. Total Entity Assets	\$ 31,316,997	\$ 33,323,911
5. Total Assets	\$ 31,317,690	\$ 33,324,336

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)	2010	2009
1. Fund Balances		
A. Appropriated Funds	\$ 0	\$ 0
B. Revolving Funds	311,557	697,367
C. Trust Funds	0	0
D. Special Funds	0	0
E. Other Fund Types	0	0
F. Total Fund Balances	<u>\$ 311,557</u>	<u>\$ 697,367</u>
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 944,664	\$ 1,409,119
B. Fund Balance per AFWCF	<u>311,557</u>	<u>697,367</u>
3. Reconciling Amount	<u>\$ 633,107</u>	<u>\$ 711,752</u>

The reconciling amount represents \$633.1million 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	2010	2009
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	\$ 532,408	\$ 373,638
B. Unavailable	0	0
2. Obligated Balance not yet Disbursed	\$ 7,824,540	\$ 7,522,917
3. Nonbudgetary FBWT	\$ 0	\$ 0
4. NonFBWT Budgetary Accounts	\$ (8,045,391)	\$ (7,199,188)
5. Total	\$ 311,557	\$ 697,367

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 are restricted for 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

AFWCF has no Investments and Related Interest.

Note 5. Accounts Receivable

As of September 30	2010			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
(Amounts in thousands)				
1. Intragovernmental Receivables	\$ 819,796	N/A	\$	819,796
2. Nonfederal Receivables (From the Public)	\$ 13,057	\$ 0	\$	13,057
3. Total Accounts Receivable	<u>\$ 832,853</u>	<u>\$ 0</u>	<u>\$</u>	<u>832,853</u>

As of September 30	2009			
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	
(Amounts in thousands)				
1. Intragovernmental Receivables	\$ 718,662	N/A	\$	718,662
2. Nonfederal Receivables (From the Public)	\$ 152,109	\$ 0	\$	152,109
3. Total Accounts Receivable	<u>\$ 870,771</u>	<u>\$ 0</u>	<u>\$</u>	<u>870,771</u>

The accounts receivable represent the AFWCF's claim for payment from other entities. 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)	2010	2009
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0	\$ 420
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 0	\$ 420
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 194,341	\$ 179,766
B. Advances and Prepayments	130,371	78,619
C. Other Assets (With the Public)	200,375	144,318
D. Total Nonfederal Other Assets	\$ 525,087	\$ 402,703
3. Total Other Assets	\$ 525,087	\$ 403,123

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 \$166.9 million in contract financing payments and an additional \$27.4 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product.

The \$200.4 million balance in Nonfederal Other Assets – Other Assets (With the Public) is comprised of Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

Note 7. Cash and Other Monetary Assets

AFWCF has no Cash and Other Monetary Assets.

Note 8. Direct Loan and Loan Guarantees

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

Note 9. Inventory and Related Property

As of September 30

(Amounts in thousands)

	2010	2009
1. Inventory, Net	\$ 28,171,171	\$ 29,915,921
2. Operating Materiel & Supplies, Net	123,186	143,417
3. Stockpile Materiel, Net	0	0
4. Total	\$ 28,294,357	\$ 30,059,338

Inventory, Net

As of September 30

(Amounts in thousands)

1. Inventory Categories

	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
A. Available and Purchased for Resale	\$ 17,703,154	\$ (14,657)	17,688,497	LAC,MAC
B. Held for Repair	14,754,093	(4,298,962)	10,455,131	LAC,MAC
C. Excess, Obsolete, and Unserviceable	136,355	(136,355)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	27,543	0	27,543	AC
F. Total	\$ 32,621,145	\$ (4,449,974)	28,171,171	

As of September 30

(Amounts in thousands)

1. Inventory Categories

	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
A. Available and Purchased for Resale	\$ 19,339,696	\$ (1,462)	19,338,234	LAC,MAC
B. Held for Repair	14,885,175	(4,348,938)	10,536,237	LAC,MAC
C. Excess, Obsolete, and Unserviceable	186,549	(186,549)	0	NRV
D. Raw Materiel	0	0	0	MAC,SP,LAC
E. Work in Process	41,450	0	41,450	AC
F. Total	\$ 34,452,870	\$ (4,536,949)	29,915,921	

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	2010			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	123,186	\$	0	\$	123,186	SP, LAC, MAC
B. Held for Repair		0		0		0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		0		0		0	NRV

D. Total	\$	123,186	\$	0	\$	123,186	
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As of September 30	2009			Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	

(Amounts in thousands)

1. OM&S Categories

A. Held for Use	\$	143,417	\$	0	\$	143,417	SP, LAC, MAC
B. Held for Repair		0		0		0	SP, LAC, MAC
C. Excess, Obsolete, and Unserviceable		0		0		0	NRV

D. Total	\$	143,417	\$	0	\$	143,417	
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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

AFWCF has no Stockpile Materiels.

**U.S. AIR FORCE****Working Capital Fund**

Notes to the Principal Statements

Note 10. General PP&E, Net

As of September 30

2010

	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	1,012,030	\$ (691,103)	320,927
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,149,812	(952,917)	196,895
E. General Equipment	S/L	5 or 10	2,752,843	(1,942,028)	810,815
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	25,199	N/A	25,199
J. Other			0	0	0
K. Total General PP&E			\$ 4,939,884	\$ (3,586,048)	\$ 1,353,836

As of September 30

2009

	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	974,901	\$ (671,482)	303,419
C. Leasehold Improvements	S/L	lease term	0	0	0
D. Software	S/L	2-5 Or 10	1,137,415	(909,880)	227,535
E. General Equipment	S/L	5 or 10	2,351,361	(1,645,858)	705,503
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	57,280	N/A	57,280
J. Other			0	0	0
K. Total General PP&E			\$ 4,520,957	\$ (3,227,220)	\$ 1,293,737

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

Assets Under Capital Lease

AFWCF has no Assets Under Capital Lease.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	2010	2009
1. Intragovernmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Other	0	0
D. Total Intragovernmental Liabilities	\$ 0	\$ 0
2. Nonfederal Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Military Retirement and Other Federal Employment Benefits	198,905	193,709
C. Environmental Liabilities	0	0
D. Other Liabilities	0	0
E. Total Nonfederal Liabilities	\$ 198,905	\$ 193,709
3. Total Liabilities Not Covered by Budgetary Resources	\$ 198,905	\$ 193,709
4. Total Liabilities Covered by Budgetary Resources	\$ 1,308,272	\$ 1,460,241
5. Total Liabilities	\$ 1,507,177	\$ 1,653,950

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

Military Retirement and Other Federal Employment Benefits consists of Federal Employee's Compensation Act 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	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 144,788	\$ N/A	\$ 144,788
2. Nonfederal Payables (to the Public)	715,535	0	715,535
3. Total	\$ 860,323	\$ 0	\$ 860,323

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

(Amounts in thousands)

1. Intragovernmental Payables	\$ 153,539	\$ N/A	\$ 153,539
2. Nonfederal Payables (to the Public)	796,397	0	796,397
3. Total	\$ 949,936	\$ 0	\$ 949,936

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 intraagency seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

AFWCF has no Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

AFWCF has no Environmental Liabilities and Disposal Liabilities.

Note 15. Other Liabilities

As of September 30

2010

Current
LiabilityNoncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	217	\$	0	\$	217
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		0		0		0
F. Custodial Liabilities		693		0		693
G. Employer Contribution and Payroll Taxes Payable		17,270		0		17,270
H. Other Liabilities		0		0		0
I. Total Intragovernmental Other Liabilities	\$	18,180	\$	0	\$	18,180

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	198,884	\$	0	\$	198,884
B. Advances from Others		33,529		0		33,529
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		2,947		0		2,947
J. Employer Contribution and Payroll Taxes Payable		0		0		0
K. Contingent Liabilities		0		27,437		27,437
L. Other Liabilities		166,972		0		166,972
M. Total Nonfederal Other Liabilities	\$	402,332	\$	27,437	\$	429,769

3. Total Other Liabilities

\$	420,512	\$	27,437	\$	447,949
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**U.S. AIR FORCE****Working Capital Fund**

Notes to the Principal Statements

As of September 30

2009

Current
LiabilityNoncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	(1,004)	\$	0	\$	(1,004)
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		0		0		0
F. Custodial Liabilities		425		0		425
G. Employer Contribution and Payroll Taxes Payable		14,110		0		14,110
H. Other Liabilities		0		0		0
I. Total Intragovernmental Other Liabilities	\$	13,531	\$	0	\$	13,531

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	169,070	\$	0	\$	169,070
B. Advances from Others		26,297		0		26,297
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		3,352		0		3,352
J. Employer Contribution and Payroll Taxes Payable		0		0		0
K. Contingent Liabilities		0		24,176		24,176
L. Other Liabilities		273,878		0		273,878
M. Total Nonfederal Other Liabilities	\$	472,597	\$	24,176	\$	496,773

3. Total Other Liabilities

\$	486,128	\$	24,176	\$	510,304
----	---------	----	--------	----	---------

AFWCF reported an abnormal balance for Intragovernmental Advances from Others in the 4th Quarter FY 2009 in the amount of \$1.0 million. An overliquidation of a previous progress billing caused the abnormal balance, which has since been resolved.

The majority of the Nonfederal Other Liabilities balance is comprised of \$126.2 million for Contract Depot Maintenance Activity Group's accrued material and labor liabilities and \$27.9 million in accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign government 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 \$27.4 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The AFWCF is under no obligation to pay contractors for amounts greater than the amounts 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 potential future payments are estimable, the AFWCF has recognized a contingent liability for estimated future payments which are conditional 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

AFWCF has no Environmental Liabilities and Disposal Liabilities.

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 expenditures. Currently, AFWCF has limited automated system processes by which it captures or assesses these potential contingent liabilities; therefore no associated liabilities are recognized or disclosed.

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to note 15 for further details.



Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2010			
	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	\$ 198,905	\$ 0		198,905
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	\$ 198,905	\$ 0		198,905
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 198,905	\$ 0		198,905

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:

2010

3.653% in Year 1
4.300% 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) 2010 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:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2010	N/A	N/A
2011	2.23%	3.45%
2012	1.13%	3.43%
2013	1.70%	3.64%
2014	1.90%	3.66%
2015	1.93%	3.73%
and thereafter		

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 2010 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 2010 projection to the average pattern for the projections of the most recent three years.

As of September 30	2009			
	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
B. Military Pre Medicare-Eligible Retiree Health Benefits		0		0
C. Military Medicare-Eligible Retiree Health Benefits		0		0
D. Total Pension and Health Benefits	\$	0	\$	0
2. Other Benefits				
A. FECA	\$	193,710	\$	193,710
B. Voluntary Separation Incentive Programs		0		0
C. DoD Education Benefits Fund		0		0
D. Other		0		0
E. Total Other Benefits	\$	193,710	\$	193,710
3. Total Military Retirement and Other Federal Employment Benefits:	\$	193,710	\$	193,710



Note 18.	General Disclosures Related to the Statement of Net Cost
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Intragovernmental Costs and Exchange Revenue

As of September 30	2010	2009
(Amounts in thousands)		
1. Intragovernmental Costs	\$ 1,579,885	\$ 2,293,064
2. Public Costs	10,242,658	8,241,327
3. Total Costs	\$ 11,822,543	\$ 10,534,391
4. Intragovernmental Earned Revenue	\$ (10,196,806)	\$ (10,030,681)
5. Public Earned Revenue	(131,544)	(349,388)
6. Total Earned Revenue	\$ (10,328,350)	\$ (10,380,069)
7. Net Cost of Operations	\$ 1,494,193	\$ 154,322

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of 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."

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.

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
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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.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30 (Amounts in thousands)	2010	2009
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 6,758,887	\$ 6,276,148
2. Available Borrowing and Contract Authority at the End of the Period	0	0

The AFWCF reported reimbursable obligations of \$7.8 billion in category B, and \$4.3 billion in exempt from apportionment.

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



Note 21.	Reconciliation of Net Cost of Operations to Budget
-----------------	---

As of September 30

2010

2009

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$	12,080,367	\$	11,238,329
2. Less: Spending authority from offsetting collections and recoveries (-)		(11,813,266)		(11,280,419)
3. Obligations net of offsetting collections and recoveries	\$	267,101	\$	(42,090)
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	\$	267,101	\$	(42,090)

Other Resources:

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		(310,795)		(64,772)
8. Imputed financing from costs absorbed by others		188,664		151,466
9. Other (+/-)		(15,271)		93,605
10. Net other resources used to finance activities	\$	(137,402)	\$	180,299
11. Total resources used to finance activities	\$	129,699	\$	138,209

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 (-)	\$	(482,739)	\$	319,984
12b. Unfilled Customer Orders		194,866		(345,924)
13. Resources that fund expenses recognized in prior Periods (-)		0		(52,004)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(5,240,399)		(5,012,188)
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 (+/-)		326,066		(28,833)
17. Total resources used to finance items not part of the Net Cost of Operations	\$	(5,202,206)	\$	(5,118,965)
18. Total resources used to finance the Net Cost of Operations	\$	(5,072,507)	\$	(4,980,756)

As of September 30

2010

2009

(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 (-)		(12,368)		0
23. Other (+/-)		5,195		0
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	(7,173)	\$	0

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	152,225	\$	161,990
26. Revaluation of assets or liabilities (+/-)		1,851,847		917,325
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		8,871,549		7,846,612
27c. Operating Material and Supplies Used		29,515		78,280
27d. Other		(4,331,263)		(3,869,129)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	6,573,873	\$	5,135,078
29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	6,566,700	\$	5,135,078
30. Net Cost of Operations	\$	1,494,193	\$	154,322

Due to the AFWCF's 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.

A \$27.3 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 schedule 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 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.

Resources Used to Finance Items not Part of the Net Cost of Operations, Other is comprised of:

1. Other gains and losses totaling \$11.7 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.
2. Property transfers to other DoD agencies totaling \$310.8 million.

Components Requiring or Generating Resources in Future Period, Other represents the change in the Federal Employees Compensation Act (FECA) actuarial 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 \$11.2 thousand of incidental custodial revenues generated primarily from nonentity 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

AFWCF has no Restatements.

Working Capital Fund

Fiscal Year 2010

Required Supplementary Information



U.S. AIR FORCE

Working Capital Fund

Required Supplementary Information

Department of Defense

Air Force Working Capital Fund

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the periods ended September 30, 2010 and 2009

(\$ in Thousands)

	Operations, Readiness & Support	2010 Combined	2009 Combined
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Unobligated balance, brought forward, October 1	\$ 373,638	\$ 373,638	\$ 343,595
Recoveries of prior year unpaid obligations	33,765	33,765	89,013
Budget authority			
Appropriation	69,443	69,443	61,465
Contract authority	7,757,396	7,757,396	7,255,839
Spending authority from offsetting collections			
Earned			
Collected	11,598,599	11,598,599	11,599,508
Change in receivables from Federal sources	(13,963)	(13,963)	(62,179)
Change in unfilled customer orders			
Advance received	(11,153)	(11,153)	(98,643)
Without advance from Federal sources	206,018	206,018	(247,280)
Subtotal	19,606,340	19,606,340	18,508,710
Nonexpenditure transfers, net, anticipated and actual	(297,535)	(297,535)	(251,274)
Permanently not available	(7,103,433)	(7,103,433)	(7,078,077)
Total Budgetary Resources	\$ 12,612,775	\$ 12,612,775	\$ 11,611,967
Status of Budgetary Resources:			
Obligations incurred:			
Reimbursable	12,080,367	12,080,367	11,238,329
Subtotal	12,080,367	12,080,367	11,238,329
Unobligated balance:			
Exempt from apportionment	532,408	532,408	373,638
Subtotal	532,408	532,408	373,638
Total status of budgetary resources	\$ 12,612,775	\$ 12,612,775	\$ 11,611,967
Change in Obligated Balance:			
Obligated balance, net			
Unpaid obligations, brought forward, October 1	\$ 7,522,917	\$ 7,522,917	\$ 7,946,887
Less: Uncollected customer payments	(3,701,113)	(3,701,113)	(4,010,572)
from Federal sources, brought forward, October 1			
Total unpaid obligated balance	3,821,804	3,821,804	3,936,315
Obligations incurred net (+/-)	12,080,367	12,080,367	11,238,329
Less: Gross outlays	(11,744,980)	(11,744,979)	(11,573,286)
Obligated balance transferred, net			
payments from Federal sources (+/-)			
Less: Recoveries of prior year unpaid obligations, actual	(33,765)	(33,765)	(89,013)
Change in uncollected customer	(192,055)	(192,055)	309,459
payments from Federal sources (+/-)			
Obligated balance, net, end of period			
Unpaid obligations	7,824,540	7,824,540	7,522,917
Less: Uncollected customer payments (+/-)	(3,893,168)	(3,893,168)	(3,701,113)
from Federal sources (-)			
Total, unpaid obligated balance, net, end of period	3,931,372	3,931,372	3,821,804
Net Outlays			
Net Outlays:			
Gross outlays	11,744,980	11,744,979	11,573,286
Less: Offsetting collections	(11,587,446)	(11,587,446)	(11,500,865)
Net Outlays	\$ 157,534	\$ 157,533	\$ 72,421

Working Capital Fund

Fiscal Year 2010

Audit Opinion



U.S. AIR FORCE

Working Capital Fund

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

November 9, 2010

**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 2010 and
FY 2009 Basic Financial Statements (Report No. D-2011-008)**

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Air Force Working Capital Fund Consolidated Balance Sheet as of September 30, 2010 and 2009, and the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended. The financial statements are the responsibility of Air Force management. The Air Force is also responsible for implementing effective internal control and for complying with laws and regulations.

We are unable to express an opinion on the Air Force Working Capital Fund FY 2010 and FY 2009 Basic Financial Statements because of limitations on the scope of our work. Thus, the financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance With Laws and Regulations (Report). The Report is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force Working Capital Fund FY 2010 and FY 2009 Basic Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that the Air Force financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2010. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Accordingly, we did not perform auditing procedures required by U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended,* to determine whether material amounts on the financial statements were presented fairly.

* OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Prior audits have identified, and the Air Force has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the Basic Financial Statements. Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements. Additionally, the purpose of the audit was not to express an opinion on Management's Discussion and Analysis, Required Supplementary Information, and Other Accompanying Information presented with the Basic Financial Statements. Accordingly, we express no opinion on that information.

Summary of Internal Control

In planning our work, we considered the Air Force internal control over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with OMB guidance, but our purpose was not to express an opinion on internal control.

Accordingly, we do not express an opinion on internal control over financial reporting and compliance with applicable laws and regulations. However, previously identified material weaknesses continued to exist in the following areas.

- Financial Management Systems
- In-Transit Inventory
- Operating Materials and Supplies
- General Property, Plant, and Equipment
- Subsidiary Ledgers and Special Journals
- Intragovernmental Eliminations
- Other Accounting Entries

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The following previously identified significant deficiencies continued to exist.

- Accounts Receivable
- Accounts Payable



Internal control work that we conducted as part of our prior audits did not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies and material weaknesses in internal control.

The Air Force reported some of the above weaknesses in its FY 2010 Statement of Assurance. However, it did not report material weaknesses involving Financial Management Systems; Operating Materials and Supplies; General Property, Plant, and Equipment; Subsidiary Ledgers and Special Journals; Intragovernmental Eliminations; and Other Accounting Entries.

Summary of Compliance With Laws and Regulations

We limited our work to determining compliance with selected provisions of applicable laws and regulations related to financial reporting because management acknowledged that instances of noncompliance identified in prior audits continued to exist. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us that the Air Force financial management systems do not substantially comply with Federal financial management system requirements, U.S. GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Air Force complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. See the Attachment for additional details on compliance with laws and regulations.

Management's Responsibilities

Management is responsible for:

- preparing the financial statements in conformity with U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Assistant Secretary of the Air Force (Financial Management and Comptroller), who did not provide technical comments to the report. Air Force officials expressed their continuing commitment to addressing the problems this report outlines.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

Attachment:
As stated

Report on Internal Control and Compliance With Laws and Regulations

Internal Control

Management is responsible for implementing and maintaining effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses and significant deficiencies, which could adversely affect the Air Force financial management operations.

Previously Identified Material Weaknesses

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 that 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 them 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.

In-Transit 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 hands 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 Materiel Support 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.

Other 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 intergovernmental trading partner transactions and the deficiencies described above.

Previously Identified Significant Deficiencies

Previously identified significant deficiencies continued to exist in the following areas.

Accounts Receivable

The Air Force could not ensure the validity of Accounts Receivable reported on its financial statements because of significant deficiencies in internal control. Specifically, the significant deficiencies included intragovernmental trading partner eliminations, Foreign Military Sales, undistributed collections, the completeness of the Triannual Review, and the lack of supporting documentation.

Accounts Payable

The Air Force could not ensure the accuracy of Accounts Payable reported in the Basic Financial Statements because of significant deficiencies in intragovernmental trading partner eliminations, accruals, supporting documentation, and the completeness of the Triannual Review. Because of these weaknesses, the Air Force was unable to properly reconcile and support the validity of Accounts Payable.

These financial management deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DOD may also contain misstatements resulting from these deficiencies.

Compliance With Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determining compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continued to exist. Therefore, we did not determine whether the Air Force complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on overall compliance with applicable laws and regulations.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires DOD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2010, the Air Force did not fully comply with FFMIA. The Air Force acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2010.

Audit Disclosures

The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged to us on April 7, 2010, that the Air Force 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. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act, Federal Credit Reform Act of 1990, Pay Provisions and Allowance System for Civilian Employees, Prompt Payment Act, and Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act).

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

148



U.S. AIR FORCE



U.S. AIR FORCE

For more information or to contact us:

Assistant Secretary of the Air Force for Financial Management and Comptroller
SAF/FMPAS (Financial Reporting)
1602 Brookley Avenue, Room 367, F Wing
Andrews AFB, MD, 20762
www.saffm.hq.af.mil