United States Air Force

Annual Financial Statement

General Funds

Fiscal Year 2000

General Funds

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SECRETARY OF THE AIR FORCE
WASHINGTON

February 2001

Message from the Acting Secretary of the Air Force

Fiscal Year 2000 was a challenging year for the United States Air Force. We worked hard to sustain the capabilities of our Air Force despite the significant challenges associated with maintaining an aging fleet of aircraft while also recruiting and retaining our highly skilled all-volunteer force in a strong economy. We also modernized our equipment to the extent our budget allowed. We successfully transformed our Air Force into an Expeditionary Aerospace Force. That transformation allowed us to sustain our ability to meet combat requirements in a timely, responsive fashion over the long term. It also provided our people with more predictable deployment schedules.

The Air Force addressed these challenges with an FY00 budget of roughly $70 billion. Consistent with the requirements of the Chief Financial Officers Act, this statement documents the expenditures devoted to our General Fund activities. It also briefly reviews selected performance measures established as part of the Government Performance and Results Acts and compares the results for FY00 to our previously set goals.

We made effective use of our budget dollars by remaining a leader in financial reform. In FY00 we continued our progress toward achieving auditable financial statements. Our enhanced internal controls and upgraded systems continued to reduce the number of financial fraud cases. Furthermore, we maintained our commitment to training our financial managers. Our guidelines for professional development ensured our financial professionals were well trained to meet constantly changing demands.

As we progress through the new millennium, our mission remains: to defend the United States through control and exploitation of air and space. We will continue our faithful stewardship of funds to ensure we dominate the aerospace medium.

LAWRENCE J. DELANEY
Acting Secretary of the Air Force

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1130

OFFICE OF THE ASSISTANT SECRETARY

February 2001

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

I am pleased to present the Air Force General Funds financial statement for Fiscal Year 2000. This statement fulfills the requirements of the Chief Financial Officers Act and portions of the requirements of the Government Performance and Results Act.

The statement documents how the Air Force spent the $70 billion of budget authority appropriated for FY 2000. In addition, this document briefly reviews our FY 2000 goals in light of actual performance. The Air Force successfully met its operational commitments in FY 2000 and achieved notable success in overcoming most of the staffing deficiencies of the previous fiscal year, meeting most of our target performance goals. We met our recruiting challenge; retention appears to be turning in the desired direction; and we are aggressively addressing readiness. We continue to implement financial management reforms in an effort to increase the resources available for application to the resolution of these remaining challenges.

The Air Force did make progress in improving financial management in FY 2000, although much remains to be done. Achieving an auditable financial statement remains one of our key goals. In FY 2000, we continued to make progress on our plan to use the tri-annual review of obligations to remedy documentation shortcomings for older budget obligations, addressing one of the key remaining audit problems with our General Funds statement. We continued to tighten our controls to minimize the opportunities for financial fraud, and continued to implement guidelines to increase the level of professional development and training for our key financial management personnel. We also made progress in improving some of our financial systems that provide data to the main accounting systems.

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

JAMES R. SPEER
Acting Assistant Secretary of the Air Force
(Financial Management and Comptroller)

Overview

Air Force Foundations

Mission

The mission of the U.S. Air Force is to defend the United States through aerospace power.

Vision 2020

America's Air Force—Global Vigilance, Reach, and Power

Core Values

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

Core Competencies

- Aerospace Superiority
- Global Attack
- Rapid Global Mobility
- Precision Engagement
- Information Superiority
- Agile Combat Support

Overview

Air Force in Action—Year 2000

During Fiscal Year (FY) 2000, the U.S. Air Force responded to numerous challenges and contingencies with effective actions designed to provide the most successful resolutions. Perhaps the foremost of these efforts was to begin integrating the lessons learned from our successful Kosovo air campaign into the tactical and strategic knowledge base of Air Force operations. Other operations in FY 2000 included those in Iraq, contingency operations, and humanitarian actions at home and around the globe.

Air Force Operations to Stabilize World Situations

Kosovo—After decisively winning peace in Kosovo, the Air Force continued to support the necessary details of maintaining that peace. By providing timely materiel support and reinforcement for American and European peacekeeping forces on the ground in Kosovo, the Air Force increased the viability of the International Relief Force (IRF). Air Force units operating from German North Atlantic Treaty Organization (NATO) bases transported Army units and their equipment to a staging base in The Former Yugoslav Republic of Macedonia. In an effort similar to a bucket brigade operation, from this staging base the IRF moved on to Kosovo to provide Task Force Falcon with additional flexibility and force protection. Air Force capabilities were instrumental in

Our modernization and readiness programs continue our commitment to ensuring that when our airmen are called on to go into harm's way, they will have the complete set of tools to ensure that their success is never in doubt. We owe them nothing less.
—F. Whitten Peters,
Secretary of the Air Force

generating a safe and secure environment in which the people of Kosovo could begin to rebuild.

Slovakia—A bilateral agreement between Slovakia and the United States allowed U.S. pilots in Europe to expand their training while strengthening ties of friendship between the two nations. This agreement was manifested by support from the Slovak Air Force at Malacky Air Base and use of the nearby Kuchyna bombing range. For the Slovak Air Force, the agreement meant partial funding for airfield and range operations, plus interoperability and familiarization between pilots from the two nations. Closer military ties with the United States and possibly other NATO-member nations were a bonus. U.S. aircraft did not drop live munitions on the range, so with the exception of aircraft noise, Air Force use of the range did not impact neighboring communities.

Korea—While the administration encouraged the presidents of South and North Korea to sign a peace accord, the United States contemplated no reduction in the approximately 37,000 U.S. military personnel in South Korea. A sizable Air Force contingent of about 8,700 personnel based at Kunsan and Osan Air Bases continued to provide an air umbrella for protection from attack by the aggressively positioned North Korean military. North Korea continued to have a large well-armed force deployed close to the demilitarized zone and to spend a disproportionate share of its gross national product on its military at a time when its people were starving. According to Department of Defense Press Secretary Ken Bacon, South Korean President Kim Dae-jung wished to see U.S. forces remain in his country. President Kim indicated that he considers the U.S. military presence a regional stabilizing force.

Iraq—The U.S. Air Force continued to fly extensive sorties as part of Operation Northern/ Southern Watch. The Air Force bore the brunt of the assignment to constantly patrol the no-fly zones in northern and southern Iraq. The combined operation encompassed nearly 1,900 personnel in Turkey supporting Northern Watch, and more than 5,100 personnel in Saudi Arabia for Southern Watch. The allied enforcement effort employed about 45 air-

craft of many types, from fighters and tankers to helicopters. Coalition pilots flew, on average, about 40 sorties a day. Airborne for three to seven hours, the fighters spent much of their time flying to and from the enforcement zone and reaching aerial refueling tankers. Numerous instances involving use of force in this operation occurred because of the recalcitrant aggression of the Iraqi leadership.

Counterdrug/Counter-terrorism

The Air Force continued to play an important role in assisting drug enforcement agencies with airborne and ground-based radar. The Air Force also employed intelligence, surveillance, refueling, and reconnaissance platforms to intercept and track smugglers far south of U.S. borders. As a case in point, while en route from Edwards Air Force Base, California, to Eglin Air Force Base, Florida, the new Global Hawk unmanned air vehicle (UAV) conducted demonstration operations for the U.S. Coast Guard along the Gulf Coast. These activities focused largely on exploring Global Hawk's capabilities to assist civilian agencies in counterdrug and contraband interdiction operations. Global Hawk set an endurance record during this flight by flying 31.5 hours non-stop.

The Air Force Research Laboratory (AFRL) Information Directorate awarded a contract to perform a study of potential counterterrorism technologies to benefit the law enforcement community. The year-long Counterterrorism Technology Assessment and Methodology Study was funded by the Department of Justice's National Institute of Justice (NIJ). The NIJ National Law Enforcement and Corrections Technology Center–Northeast is co-located with the Information Directorate at the AFRL Rome (New York) Research Site. The mission was to support domestic counterterrorism efforts through research into electronic devices to detect concealed weapons and explosives, body cavity scanners, and through-the-wall surveillance technologies. Through-the-wall surveillance research will use a variety of existing sensor technologies, then combine (or fuse) specific data from each for a better image. The goal will be to allow

military peacekeepers and civilian law enforcement personnel to monitor individuals shielded behind walls.

Humanitarian Missions

Military medics have spearheaded humanitarian and civic assistance at home and abroad. Air Force medical professionals are implementing the medical readiness strategy of shaping our allies' environments to promote democracy, peaceful relationships, and economic vitality. The Air Force Medical Service has established a new core competency of medics serving as International Health Specialists (IHSs). IHSs are proficient in a second language and deploy around the world to provide basic primary and subspecialty care. These IHSs could be called upon to act as advisors or to facilitate humanitarian missions in their area of expertise. They also may serve as advance team members, prior to a deployment, to assess the situation following a disaster.

USAF medics also have taught trauma systems courses, sponsored by the Expanded International Military Education and Training system, to more than 350 students in six Central American countries and four southern African countries. In each course, military and civilian medics from adjacent countries have attended. Emphasis is placed on regional involvement, disaster response, trauma care, leadership, civilian/military collaboration, resource management, and "train-the-trainer" skills. Clearly, these global partnerships and training can benefit our allies and create regional political stability, reducing the likelihood of future conflict.

In FY 2000, the Air Force continued to respond to humanitarian needs around the globe. The United States, along with other nations, deployed to Mozambique to provide aid to the many thousands of refugees displaced by massive flooding. Because the transportation infrastructure was damaged by flooding, U.S. Air Force HH-60G Pave Low helicopters became the primary workhorses for transportation operations outside the International Airport in Mozambique.

An Air Force medical team performed life-changing surgeries for indigent families at the Santa Teresa public health hospital in Comayagua, Honduras. U.S. Southern Command directed the mission after receiving the request for aid from the U.S. Embassy in Honduras. The medical team also brought a half ton of medical supplies from Lackland Air Force Base, Texas. Honduras's economy had been improving steadily until Hurricane Mitch hit hard two years ago, leaving about half of the 6 million people living below the poverty line. Unlike many charitable medical teams, Army and Air Force teams have operated there for 17 years, maintaining records on their patients and performing follow-up surgeries when needed.

Overview

The Future of the Air Force

The U.S. Air Force entered the 21st century as the most powerful, swift, and flexible military force in the world. Aerospace power was born in America with the Wright brothers and was proven decisive in combat by American commanders who understood the imperative of dominating the skies: William Mitchell, Douglas MacArthur, Dwight D. Eisenhower, Chester Nimitz, Henry Arnold, William Westmoreland, H. Norman Schwarzkopf, Mark Clark, and many more. Aerospace power became America's unique asymmetric advantage. Through aerospace superiority operations, we established freedom from attack, freedom to maneuver, and freedom to attack for all joint forces. Not since the Korean War have American ground forces been attacked by enemy aircraft. Through modern technologies first developed during the Vietnam War era and the latter stages of the Cold War, the United States achieved the ability to conduct air operations with near impunity from hostile defensive activity. Technologies such as radar absorption and reflection for stealth, and precision robotic guidance made hostile nations think twice about openly challenging our military forces.

Today, aerospace power gives the nation a strategic advantage and is its most rapid instrument of military choice. Aerospace power makes it possible for the United States to lead in executing critical security commitments, while remaining ready to engage rapidly any-

where around the globe. Joint military operations require control of air and space. Without aerospace power, joint forces could not effectively deploy, fight, and win. With aerospace power, joint forces can secure objectives quickly with minimum loss of life. The Air Force is a combat-proven, mission-focused, decisive fighting force. Today, our national security policy relies on the steady engagement of air forces in several regions. While the other services use their aviation arms primarily to assist their principal forces, the Air Force provides the essence of our nation's aerospace power.

The Developing Threat

The Air Force is preparing for a range of potential threats that vary in character and intensity. A hostile state action, weapons of mass destruction, cyber-terrorism, and a heightened need for defense of the American homeland are all possible challenges in the future. Security can be fragile. Tomorrow's weapons have the potential to be devious and destructive. New threats can emerge quickly, and our ability to counter them must never be taken for granted.

Given the uncertainty and diversity of these threats, aerospace power, with its unique capabilities, is more important than ever in carrying out America's security goals. First, aerospace power is far-reaching. Our aircraft can reach any point on the globe within hours, with the flexibility to supply relief or to produce combat effects. Second, as a lethal fighting force, we can control enemy maneuvers in the battlespace and find and destroy targets with great precision. Third, aerospace power is vigilant. Airmen link aircraft, satellites, and information systems to create global situational awareness. Vigilance takes many forms, from security forces patrolling the base perimeter to nuclear forces on alert. These three characteristics combine to make aerospace power a highly flexible, powerful military force—indispensable to our nation. Building such characteristics into the Air Force requires careful analysis, hard work, and commitment to performance goals.

Overview

Air Force Resources and Organizations

The Air Force's stated mission is to defend the United States through control and exploitation of air and space. To accomplish this mission—global power and reach for America—the U.S. Air Force needs the following:

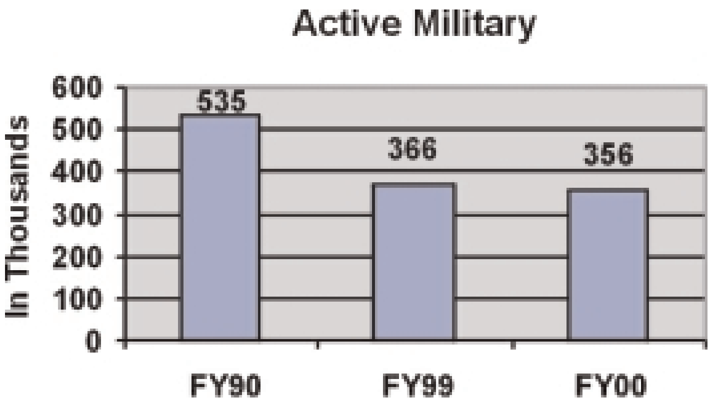
- ▲ **People**—trained, motivated, and dedicated.
- ▲ **Places**—network of bases that reflects the change from "global containment" to "global engagement."
- ▲ **Systems**—modern weapon platforms that integrate air and space assets into a formidable application of force.

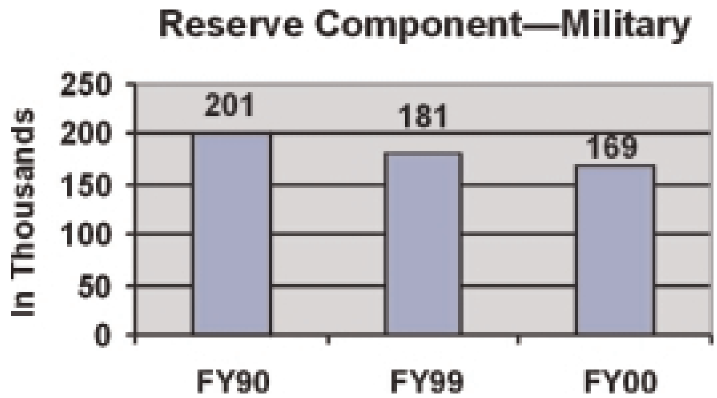
People

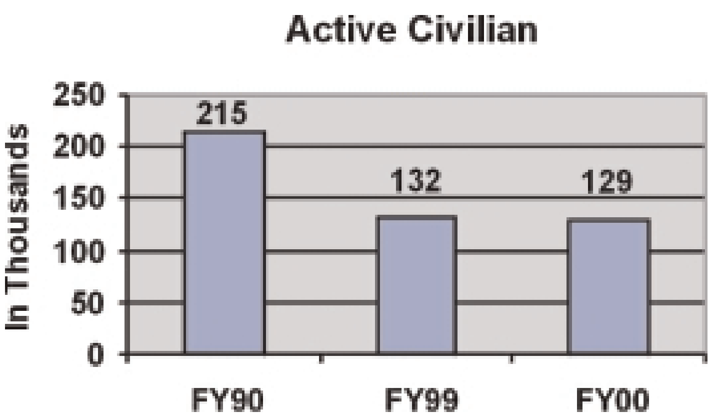
The United States Air Force is built on the foundation of its people. The people fight and win America's air wars; they must be skilled, motivated, and dedicated. They must be recruited, then trained, and finally retained to keep the foundation strong.

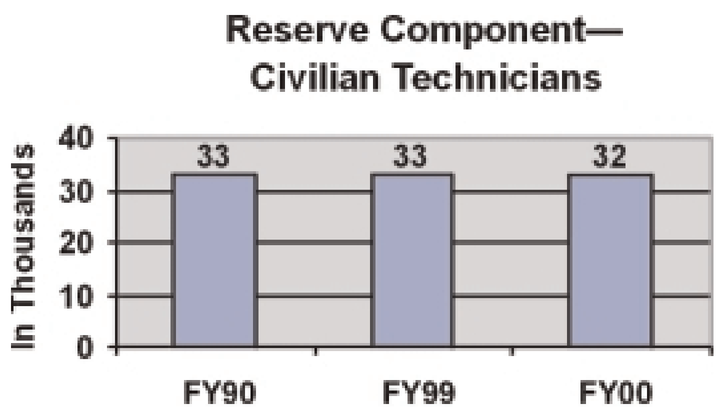
The data in the charts on the following page clearly show that this resource is shrinking and changing in composition.

While the reduction in military personnel has leveled off in the past few years, active military has declined about 34 percent from 1990 levels, and the reserve component declined 10 percent, even with many added taskings.









These trends also are reflected in the civilian Air Force segment. The number of civilians in the active Air Force has declined by 41 percent since FY 1990, and although the number of civilian technicians in the reserve component has remained constant, the reserve components' taskings have increased greatly. Also, the number of civilians in the reserve component has increased from 13 percent to 21 percent of all civilian Air Force personnel.

The aging civilian workforce also compounds manning problems. Due to personnel drawdowns of the past decade, new hires have been limited, and many experienced employees have gone on to other jobs or taken advantage of early retirement options. As a result, 42 percent of Air Force civilian personnel are eligible to retire in the next five years, and there are too few experienced workers to fill those positions. The Air Force is taking steps to reshape the civilian force to ensure future availability of sufficient experienced personnel with the skills to fill key positions.

In addition to the dramatic decline in the military force since the end of the Cold War, the other most

significant occurrence has been the shift of people and mission tasking from the active force to the reserve component. The reserve component consists of the Air Force Reserve Command and the Air National Guard. The reserve components are not just “add-ons” to the active force but an integral part of it—nearly half of the mission-oriented squadrons in the total Air Force are in the reserve components. The vital role reserve forces play in the post-Cold War environment is underscored by the fact that a clear majority of the Air Force’s total air refueling capability is in the Air National Guard and the Air Force Reserve. During the recent Operation Allied Force, Air Force Reserve and Air National Guard units and personnel performed approximately half of all air refueling support for NATO operations.

To ensure that the reserve components encompassing these vital resources achieve optimal benefit to the Air Force mission, the Air Force is studying methods of better integrating Active, Guard, and Reserve Forces into the daily operations of the total Air Force.

Recruit, Train, and Retain

Recruit

As of the end of FY 2000, the Air Force is approximately 5,200 men and women short of its total force goal. This situation exists because retention is still down. In spite of its missed recruiting goal (for the first time in 20 years) in FY 1999, the Air Force achieved its FY 2000 recruiting goal by accessing 34,369 airmen against a goal of 34,000.

The Air Force exceeded its FY 2000 recruiting goal not by lowering standards but by intensifying efforts to get the message out about what benefits the Air Force provides a young person. This success, in the face of the nation’s strong economy and the stiff competition from business, is the result of hard work and many new approaches.

Successfully meeting recruiting goals reflects a combination of measures. More recruiters on the street, new advertising initiatives, and higher enlistment bonuses are important to manning the force. Most of all, this success reflects a determination to make recruiting a top priority.

To accomplish its recruiting mission, the Air Force:

- Dramatically increased the number of production recruiters from 1,085 at the beginning of FY 1999 to 1,363 at the end of FY 2000. During FY 2000, authorizations increased from 1,209 to 1,450 and will grow to 1,650 by the end of calendar year 2001.

- Instituted aggressive advertising, including the first full year of a paid national television advertising campaign.
- Kept pace in cyberspace by introducing an innovative, artistically designed web site that provided a better understanding of the Air Force overall—effectively reaching the Internet generation.

The need to recruit qualified men and women, both military and civilian, to serve in the U.S. Air Force remains as important today as when the service was established. The Air Force is confident that if it gets its message across to the nation's young people, they will respond positively.

The Air Force hopes to attract more former airmen, soldiers, sailors, and Marines to return to active duty in FY 2001. A program that complements typical non-prior service recruiting allows the Air Force to immediately fill noncommissioned officer shortages in certain specialties through welcoming back individuals with previous military experience. Previously, recruiters were given credit only for enlisting people with no prior military experience. Accessions with prior military service did not count against their annual goal, although 848 veterans returned during FY 2000. The FY 2001 goal of 34,600 new recruits includes prior-service members. During the early-to-mid 1980s, the enlisted prior-service program brought back as many as 3,000 veterans each year. Force reductions resulted in reduced use of the program over the past decade.

With the change in rules, members of all services may begin a career in the Air Force without an administrative waiting period. The basic criteria for enlisted members to reenter the active force are as follows:

- Eligibility for re-enlistment at time of separation
- No more than 12 years of prior active service
- Separated no more than six years at time of resumption of active duty
- Grades E-4 through E-6.

Air Force Reserve and Air National Guard members also are eligible to participate, with commander approval.

Train

Getting good people into the Air Force is just the beginning—they need to be trained to perform highly technical work that is the basis of the Air Force's record of military success.

The Air Force is changing the way it trains with the implementation of a new professional military education (PME) course at Maxwell Air Force Base, Alabama; the Aerospace Basic Course (ABC). ABC is the first step in an Air Force officer's PME and is designed to meet the needs of our newly commissioned line, non-line, active-duty Guard and Reserve officers, and selected civilian interns. This four-week course started about two years ago to create an "airman first" mentality for all Air Force members. ABC will serve as a foundation in core values, core competencies, and aerospace power theory.

Technical training courses are a vital part of our training system. For example, the 21-day loadmaster course teaches airmen the basics of weight and balance and the mathematical formulas used for loading aircraft. The course consists of five blocks of instruction covering transportation of hazardous materials; aircraft loading formulas; vehicle centers of gravity; principles of airdrop and palletized load planning; and vehicle marshaling and restraint. After completing this course, students attend the Air Force Survival School.

The Community College of the Air Force (CCAF) offers numerous courses leading to an associate degree and graduated its 200,000th student in FY 2000. CCAF, the largest community college in the world and the only one in the Department of Defense, was activated in 1972 to gain academic recognition for technical training conducted by Air Force schools. The college offers 66 degrees in five areas: aircraft and missile maintenance, electronics and telecommunications, allied health, logistics and resources, and public and support services.

Retain

The impact of the biggest pay raise in a generation, pay table reform, and changes to military retirement is being felt in the Air Force. Better support for men and women in uniform is producing a more stable and more experienced force.

Unfortunately, retention problems overshadowed the benefit of FY 2000's successful recruiting campaign, and the Air Force continued to be under strength by approximately 5,200 personnel.

Compensation

Our compensation programs must be able to attract and retain quality, high-tech individuals in an environment of economic growth, low unemployment, and in a competitive marketplace. Reflecting that reality, the FY 2001 National Defense Authorization Act (NDAA) continues the gains from FY 2000 by providing for a 3.7-percent pay raise, and a targeted pay raise for E-5 to E-7 personnel ranging from $32 to $58 per month. It also reduces the median out-of-pocket expense for Basic Allowance for Housing (BAH) from 18.9 percent to 15 percent, continuing on track with the goal to reduce median out-of-pocket expenses to zero by FY 2005. It also establishes a new BAH rate standard for E-4s and below with an appropriate rate change. The limitation on Basic Allowance for Subsistence (BAS) of 1 percent per year has been lifted and will rise according to the U.S. Department of Agriculture Food Index. Based on current trends, this approximates a 2-percent increase in FY 2001.

- **Special pay and bonuses.** The law provides for an Officer/Enlisted Critical Skills Bonus of up to $200,000 in a career and provides needed flexibility to address our retention concerns. Special Duty Assignment Pay maximums increase to a maximum of $600 per month.
- **Other benefits.** The law also equalized Dislocation Allowance (DLA) for E-5s and below. Service members were authorized a pet quarantine reimbursement of up to $275. Service members will have the opportunity to participate in the Thrift Savings Plan similar to that presently offered to DoD civilians.
- **TRICARE.** TRICARE benefits have been extended to all eligible military retirees, regardless of age, and their dependents. The legislation that extended the Medicare subvention program also implemented the TRICARE Senior Pharmacy program for Medicare-eligible military retirees and family members. It also made TRICARE Prime Remote available to all uniformed service personnel and their dependents and repealed both TRICARE Prime and Prime Remote copayments by active-duty dependents. Finally, it eliminated the requirement to obtain non-availability statements for TRICARE Standard participants.

The Air Force will continue to push for competitive basic pay; enhanced flexibility in special payments and bonuses; reduced out-of-pocket costs; civilian force shaping initiatives; and improved TRICARE access.

Quality of Life

Our most critical readiness component is our people—we continue to rank quality of life with readiness and modernization as the Air Force's top priorities. Our quality of life initiatives continue to acknowledge the intense demands we place on our mission-focused total force. The Air Force will, with the continued support of Congress, pursue fair and competitive compensation and benefits; balanced deployments and exercise schedules; safe, affordable, and adequate housing; support for community and family programs; expanded educational opportunities; and quality health care.

The FY 2000 NDAA addressed several quality of life issues: a 4.8-percent pay raise, full restoration of the military retirement system, future pay raises set at employment cost index plus 0.5 percent, pay table reform, career enlisted flight incentive pay, basic housing allowances increases, aviation continuation pay enhancements, and temporary lodging expenses for first-term airmen. Both the Dormitory Master Plan and the Family Housing Master Plan continue to address improvements and renovations in military housing, and DoD is championing the reduction of out-of-pocket housing expenses. The Air Force will continue to leverage benefits and quality of life programs to support a higher retention rate. Defense leaders will continue working to improve housing. The first step will be putting more dollars in service members' pockets by improving the basic allowance formula for housing. Adjustments will eliminate off-base residents' out-of-pocket expenses over five years. Beneficiary counseling/assistance coordinators, debt collection assistance officers, and education and improved care access initiatives have been instituted to improve TRICARE. In addition, claims processing, out-of-pocket expenses, and customer service will continue to be addressed. Many other programs and initiatives, such as childcare and youth centers, fitness facilities, AFCrossroads.com, equipment and training, Air Force leadership, personal financial management assistance, and spouse employment, continue to demonstrate the Air Force's commitment to the recapitalization of the Total Force.

The Air Force continued to set the standard in providing quality childcare and youth activities. In FY 2000, the Air Force used the FY 1999 emergency supplemental appropriations for Morale, Welfare, and Recreation (MWR) Personnel Support for Contingency Deployments, to provide special programs related to youth and childcare. This included the purchase of 600 computers to enable

adolescent members of Air Force families to communicate with deployed family members. Summer camp experiences also were provided to 4,797 children of deployed parents. The Air Force also implemented a new childcare program for extended duty hours to help parents with childcare during heightened operations tempo.

The Air Force recognizes the economic benefit our members derive from the activities and services provided within our base community. Programs like child development, youth programs, fitness centers, libraries, skills development, clubs, golf courses, and bowling centers all offer programs and services that support and enhance the sense of community and meet our members' needs for relaxation and stress reduction. Beyond these benefits, on-base programs are part of the non-pay benefit system providing savings over the cost members would pay to receive similar services off base.

The Air Force also continues to support the commissary benefit as an important non-pay entitlement upon which active-duty, retiree, and, increasingly, reserve component personnel depend. The commissary system is consistently viewed by service members and their families as one of their vital non-pay compensation benefits and contributes greatly to recruiting and retention.

Lodging facility improvements to ensure Air Force members and their families enjoy adequate visiting quarters (VQs) and temporary lodging facilities (TLFs) have become a higher quality of life priority. Constructing facilities in sufficient quantity and maintaining existing facilities not only supports members in TDY and permanent change of station (PCS) status but also yields significant savings in travel costs and ensures force protection.

This year, legislation was passed to eliminate co-payments for active-duty family members enrolled in TRICARE Prime. Additionally, TRICARE Prime Remote will be extended to family members of active-duty personnel when the member and family are stationed more than 50 miles from a military medical treatment facility. Changes to claims processing, referral practices, and reimbursement for certain travel expenses will make accessing specialized care through the TRICARE system easier for beneficiaries.

Pilot Retention

A special subset of the retention challenge is retaining our experienced pilots. The U.S. Air Force boasts the world's most efficient, talented support force, combined with technologically superior, integrated aerospace systems; however, retention of skilled pilots is key to accomplishing operational missions. Further, at a cost of several million dol-

lars to train and season, a veteran pilot is the Air Force's most expensive personnel asset. A strong economy and unprecedented airline hiring have contributed to a shortage of approximately 1,200 pilots, 9 percent of the requirement. To minimize losses and protect our combat capability, Air Force leadership has taken aggressive steps, including scrutinizing pilot requirements, increasing pilot production, increasing active duty service commitment from eight to 10 years, increasing compensation, managing operations tempo, and enhancing quality of life programs.

There is no magic answer that will reduce or eliminate the pilot shortage or declining pilot retention. However, the Air Force is making a concerted effort to turn the tide and reinforce the foundation needed to protect the nation's combat capability now and in the future.

Retiree Benefits

Initiatives incorporated in the FY 2001 National Defense Authorization Act (NDAA) will help combat declining retention rates. Air Force senior leadership worked aggressively to address health care benefits for retirees over age 65. These efforts were successful with the inclusion of senior healthcare in the FY 2001 NDAA. As a result of this landmark legislation, Medicare-eligible military retirees will be permanently authorized to use military health care as full TRICARE participants. Senior retirees also will have a multiple-option prescription drug benefit with access to retail pharmacies and the National Mail Order Pharmacy (NMOP). The TRICARE Senior Prime Demonstration Project will be extended an additional year, and the option is open to negotiate with the Health Care Financing Administration to continue the program permanently. To ensure adequate funding for health benefits for military seniors, an accrual financing system will be in place by October 1, 2002. This account within the Treasury Department will be dedicated solely to funding health care for military seniors, similar to how current retirement benefits are funded.

Both the House and Senate appropriations bills will expand the pharmacy benefit to over-65 retirees. Military retirees who can drive to the local military clinic or hospital will be able to get prescriptions filled. Those who live an hour or more away from the base will be able to use a mail order process that provides a 90-day prescription supply. Having obtained funding in the FY 2000 budget, the Air Force will offer certain members corrective eye surgery performed at Wilford Hall Medical Center, Lackland Air Force Base, Texas, as part of two new laser eye surgery programs that began in October. The new Refractive Surgery Center of Excellence will support these new Air Force programs and will serve an important readiness role. The programs will allow Lackland opthamologists to perform approximately 2,000 procedures each year, eliminating or reducing dependency on glasses.

Today there are thousands of Air Force people facing the toughest military missions—in Korea, in the Balkans and in the Gulf. They are the best-equipped, best-trained and best-led forces on this globe. And the entire Air Force team—military and civilian, active duty, Guard and Reserve—are an integral part of that team, that force, that family...our great Air Force.

—General Michael E. Ryan
Air Force Chief of Staff

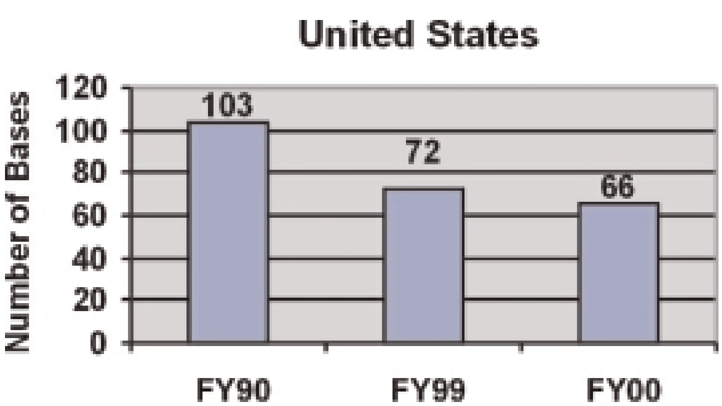
Places

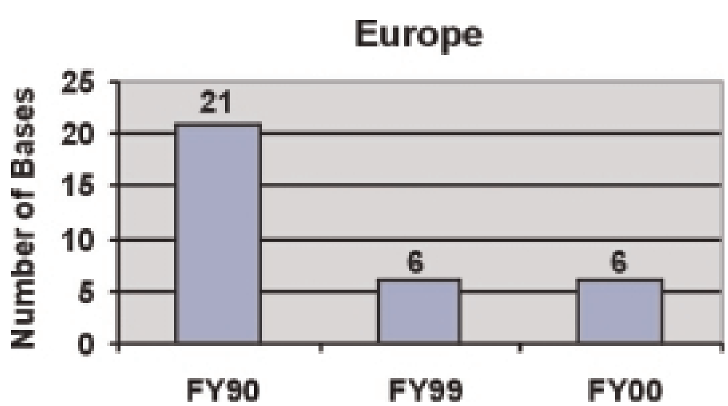
The dramatic decline in the number of Air Force installations worldwide since the end of the Cold War clearly shows how it has changed from a containment force to a deployment force. This is especially evident in the reduction of our bases in Europe by 70 percent. Overall, the number of installations at home and abroad has dropped by 41 percent since 1990, an impressive number and impressive part of the peace dividend.

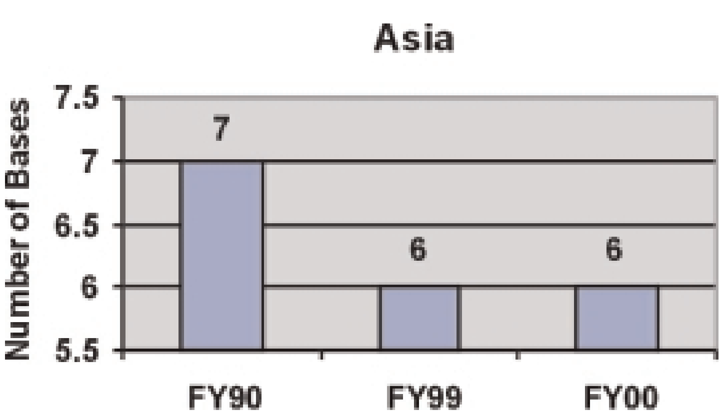
Even given this significant drop in infrastructure, future developments in the Air Force—establishing the Expeditionary Air Force being one—indicate that another Base Realignment and Closure (BRAC) exercise is needed to further trim infrastructure so that additional savings can be applied to high-priority items such as modernization.

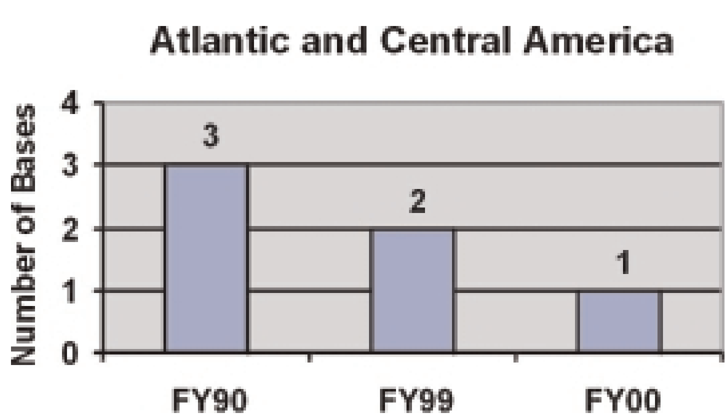
Systems

When the Air Force talks of weapon systems, it no longer means just airplanes. It means airplanes that are integrated with constellations of satellites using communications and information linkages that create a weapon platform of devastating force. However, just as we need state-of-the-art satellite





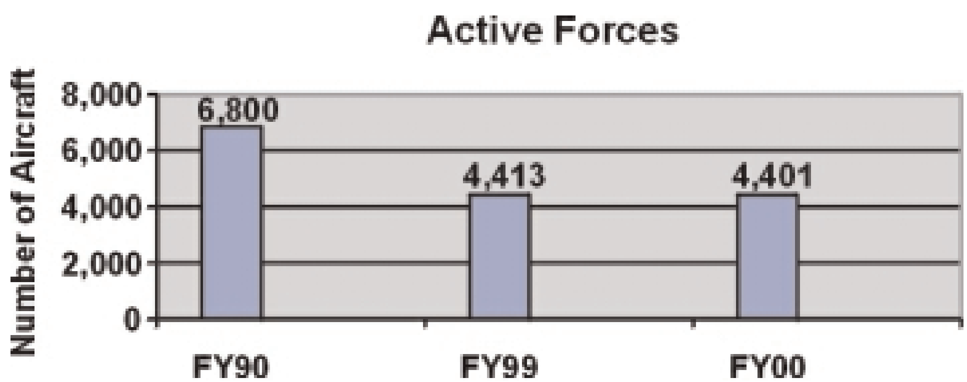


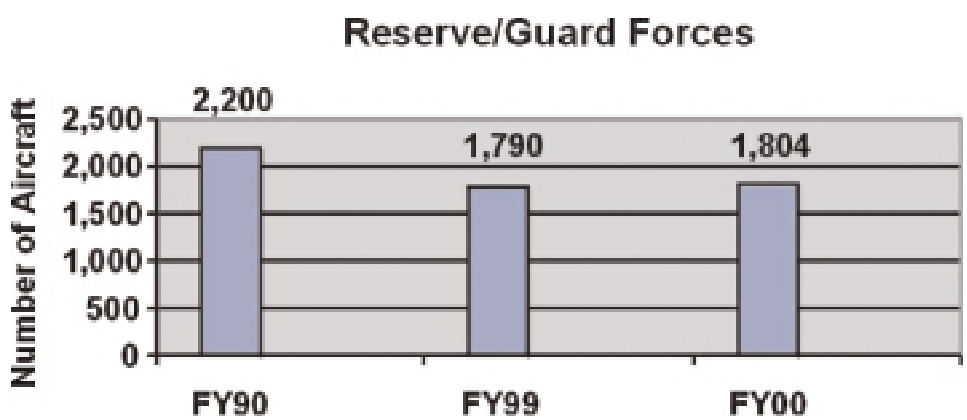


constellations, we cannot let the air-breathing component of this weapon platform lapse into an outmoded configuration that fails to take full advantage of the nation's space superiority.

Aircraft

While the number of aircraft has decreased significantly in both the active force and the reserve component, it is not the number of aircraft that is today's challenge. The age of the Air Force's weapons systems is unprecedented. This year, the average age of our aircraft is 20 years, and under current modernization plans this average age will increase to 30 years in 2015. The costs of maintaining this older equipment are growing. Fatigue, corrosion, and part obsolescence are progressively increasing the costs of maintaining older planes and reducing overall equipment readiness. If the Air Force is to continue making readiness affordable, it must aggressively balance the cost of





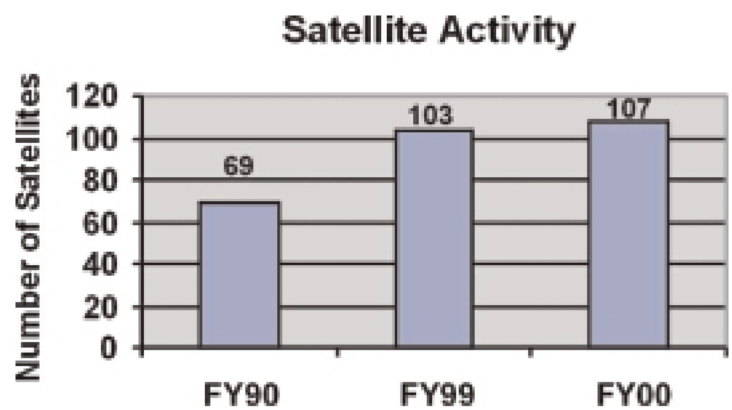
Average Age of Selected Weapons Systems in Years		
Weapon System	September 30, 2000	Number of Aircraft
F-15	14	614
C-130	30	192
C-5	19	81
B-52	39	85
B-1	13	75
A-10	19	129

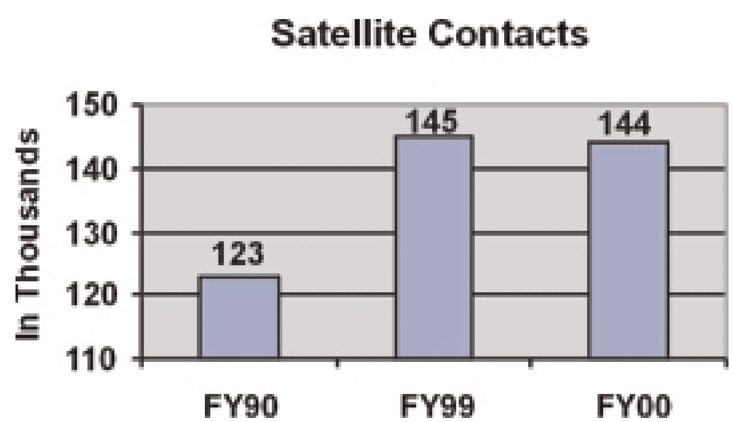
replacing weapons systems with continued modernization efforts. It is not just support aircraft that are aging but some of our primary warfighters as well.

In addition, a technology imbalance is quickly developing, because while information and communication technology is advancing at an exponential rate, airframe interfaces are of a different technological era.

Satellites

Satellites are becoming more and more important in enabling the Air Force to perform its mission. Air-breathing assets must be fully integrated with space assets to take advantage of this synergy. The charts shown include satellites controlled beyond the operational Air Force inventory, such as other DoD, allied, and research satellites. The United States launched 30 satellites during FY 2000, with a single failure, the Boeing Sea Launch. The DoD launch record for FY 2000 is 11 successful satellite launches without failure.





Air Force Organizations

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.

Major Air Commands are divided primarily between two types: operational and support. Within the operational commands, the divisions are generally defined according to purpose or location (e.g., combat; movement of people and supplies; Pacific and European theaters). The support commands generally are organized according to function (e.g., logistic, support, or training) and are directly subordinate to Air Force Headquarters.

Air Combat Command

Total Command Personnel—97,363
Commander—General John P. Jumper

Mission

Air Combat Command (ACC) professionals provide the world's best combat air forces, delivering rapid, decisive, and sustainable air power—anytime, anywhere. Its mission includes operating fighter, bomber, reconnaissance, battle-management and rescue aircraft, as well as command, control, communications, and intelligence systems. ACC organizes, trains, equips, and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. ACC provides nuclear forces for U.S. Strategic Command, theater air forces for the five geographic unified commands (U.S. Joint Forces Command, U.S. Central Command, U.S. European Command, U.S. Pacific Command, and U.S. Southern Command), and air defense forces to the North American Aerospace Defense Command.

Air Force Education and Training Command

Total Command Personnel—57,624
Commander—General Hal M. Hornburg

Mission

Air Force Education and Training Command (AETC) recruits personnel into the U.S. Air Force and provides them with military, technical, and aeronautical training, plus pre-commissioning, professional military, and continuing education. After the basic training program, AETC trains enlisted personnel in technical skills prior to placing them in Air Force jobs. The command maintains a curriculum of more than 1,350 active technical courses, offering a wide variety of job skills for today's young adults. During a career in the Air Force, the command administers the education and training provided for each officer or enlisted person.

Air Force Materiel Command

Total Command Personnel—84,187
Commander—General Lester L. Lyles

Mission

Through integrated management of research, development, test, acquisition, and support, the Air Force Materiel Command (AFMC) advances and uses technology to acquire and sustain superior systems in partnership with our customers and suppliers. AFMC performs continuous product and process improvement throughout the lifecycle. As an integral part of the Air Force war-fighting team, AFMC contributes to affordable combat superiority, readiness, and sustainability.

Air Force Reserve Command

Total Command Personnel—78,870
Commander—Major General James E. Sherrard III

Mission

The Air Force Reserve Command (AFRC) provides the total Air Force with highly prepared units and individual members in support of both Air Force and national objectives. By providing cost-effective options for the Air Force, the dedicated citizen airmen of the Air Force Reserve Command work to build the world's most respected air and space force. AFRC flies 15 aerospace vehicle types in 23 major mission areas, including satellite and pilot training and three unique missions: hurricane hunters, space shuttle mission support, and aerial spray, including aerial spray of oil dispersant chemicals.

Air Force Space Command

Total Command Personnel—33,250
Commander—General Ralph E. Eberhart

Mission

The Air Force Space Command's (AFSPC's) mission is to defend the United States through the control and exploitation of space. The command's professionals are the best missile/space team in the world, making space reliable and routine for the warfighter by continuously improving the command's ability to provide and support combat forces. The command has four primary mission areas: space force support; space control; space force enhancement, and space force application. AFSPC defends America through its space and intercontinental ballistic missile (ICBM) operations, which are vital force elements for projecting global reach and global power. AFSPC is the major command providing space forces for the U.S. Space Command and trained intercontinental ballistic missile forces for U.S. Strategic Command. AFSPC also supports the North American Aerospace Defense Command (NORAD) with ballistic missile warning information and operates the Space Warfare Center to develop space applications for direct warfighter support.

Air Force Special Operations Command

Total Command Personnel—11,995
Commander—Lieutenant General Maxwell C. Bailey

Mission

The Air Force Special Operations Command (AFSOC) is America's specialized air power. It provides Air Force special operations forces for worldwide deployment and assignment to regional unified commands. AFSOC is one of four components of the U.S. Special Operations Command, a unified command at MacDill Air Force Base, Florida. The principal missions of special operations forces are unconventional warfare, including direct action, special reconnaissance, foreign internal defense, combating terrorism, psychological operations, counter-proliferation, civil affairs, and information operations. The ability to deploy globally and strike precisely from the air or ground, without regard for adverse weather, provides force multiplication, minimizes collateral damage, and permits freedom of maneuver for supported forces.

Air Mobility Command

Total Command Personnel—41,524
Commander—General Charles T. Robertson, Jr.

Mission

The Air Mobility Command's (AMC's) mission is to provide airlift, air refueling, special air mission, and aeromedical evacuation for U.S. forces. As a function of its responsibility for rapid, global mobility and sustaining America's armed forces, the command also supplies forces to theater commands to support wartime taskings. As the Air Force component of the U.S. Transportation Command, the AMC is the single manager for air mobility. This rapid, flexible, and responsive air mobility capability promotes stability in regions by keeping America's capability and character highly visible. The AMC provides responsive global reach for America every day.

Air National Guard

Total Command Personnel—106,990
Commander—Major General Paul A. Weaver, Jr.

Mission

The Air National Guard (ANG) comprises 106,990 citizen soldiers with state and Federal responsibilities. ANG has 88 flying units and 334 mission support units in all fifty states, three U.S. territories, and the District of Columbia. It is fully integrated in the 10 air expeditionary forces, contributing more than 25,000 Air National Guard members every 15-month cycle. With nearly 1,200 aircraft, the Guard performs 100 percent of the air sovereignty mission and contributes one-third of the fighters, almost half of the tactical airlift and air refueling aircraft, and 70 percent of the combat communications and theater air control assets in the total force.

Pacific Air Forces

Total Command Personnel—45,166
Commander—General Patrick K. Gamble

Mission

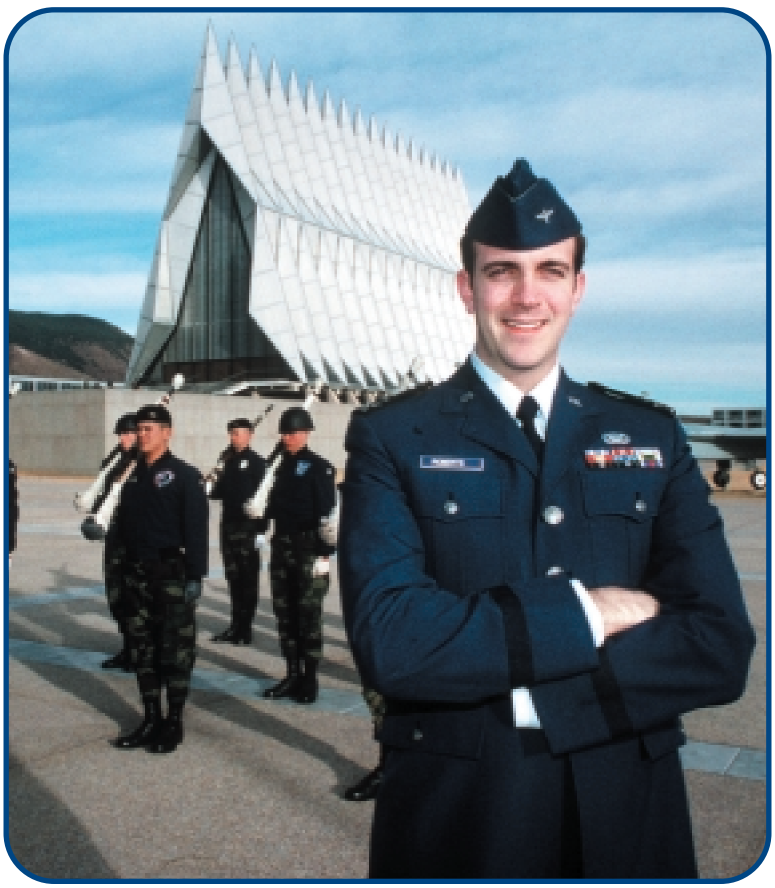
The mission of the Pacific Air Forces (PACAF) is to plan, conduct, and coordinate offensive and defensive air operations in the Pacific and Asian theater. PACAF provides advice on the use of aerospace power throughout the theater and carries out missions as directed by the commander in chief of the U.S. Pacific Command. As a major command, PACAF ensures that Air Force units in the region are properly trained, equipped, and organized to conduct tactical air operations. PACAF's area of responsibility extends from the West Coast of the United States to the East Coast of Africa and from the Arctic to the Antarctic—more than 100 million square miles.

U.S. Air Forces in Europe

Total Command Personnel—35,506
Commander—General Gregory S. Martin

Mission

The U.S. Air Force in Europe's (USAFE's) mission is to provide responsive forward presence and decisive air and space power. USAFE plans, conducts, controls, coordinates, and supports air and space operations to achieve U.S. and NATO objectives based on tasks assigned by the commander in chief, U.S. European Command.



Direct Reporting Units and Field Operating Agencies

Direct Reporting Units' Mission

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

Field Operating Agencies' Mission

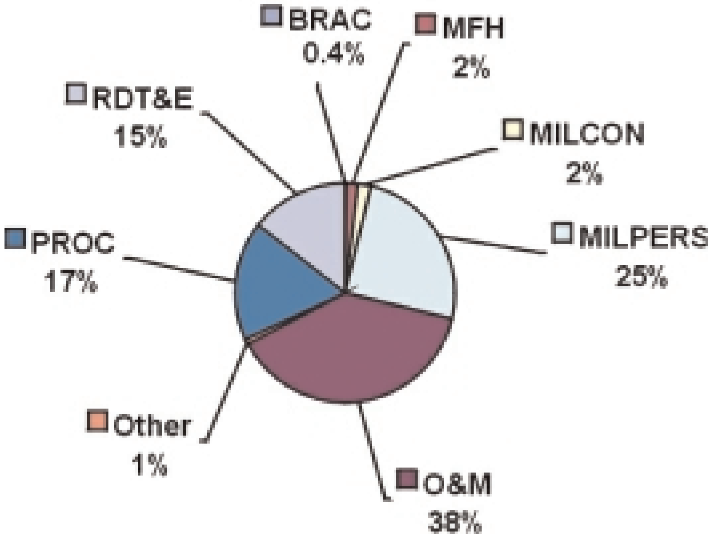
Field Operating Agencies (FOAs) carry out their responsibilities under the operational control of a functional manager at the Air Force Headquarters level. They range in size from 16,000 to less than 50 personnel assigned, and include such diverse agencies as Air Force Audit, Air Intelligence, and Air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

Overview

Financial and Performance Measures

The FY 2000 budget was almost the same as FY 1999, with slight increases in real purchasing power. The total Air Force budget authority was $70.1 billion. This amount includes all funds for operations and maintenance (O&M) to include contingencies; procurement; research, development, testing, and evaluation (RDT&E); military personnel (MILPERS); military family housing (MFH); military construction (MILCON); and BRAC. This funding does not include any funds received from operating the working capital funds arena, other services, DoD agencies, and other Federal agencies.

Air Force FY 2000 Budget by Appropriation



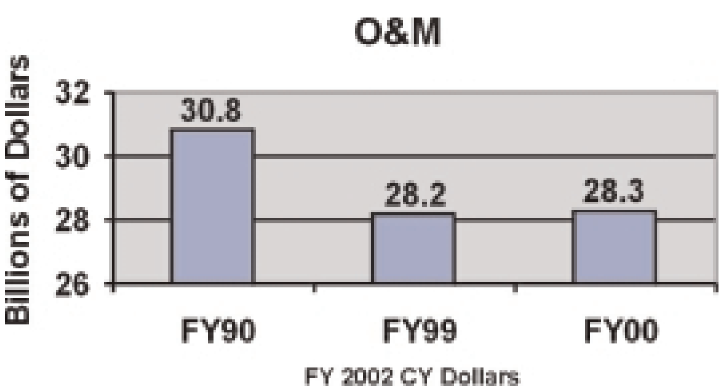
The budget for FY 2001 continues this trend of small increases of actual dollars. The election of a new administration may, however, change the actual amounts the Air Force receives in FY 2001 and beyond.

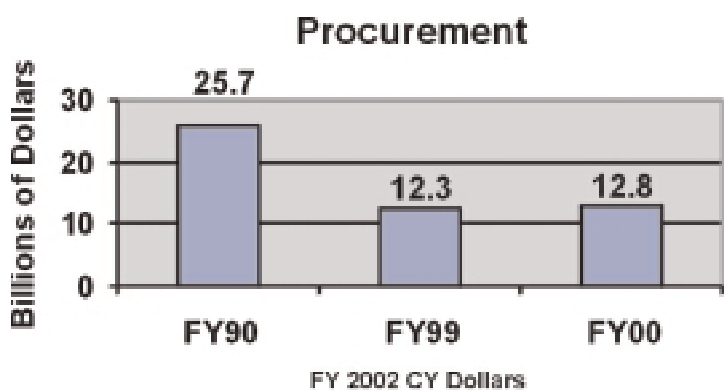
The Air Force will continue to need increased funding levels if it is to maintain its current high operating tempo and modernize its aging fleet of aircraft. The Balkans war is over, but the support for the implementation force (IFOR) is not. The Northern and Southern watch over Iraq is ever present, and sustained missions in Korea and drug interdiction in South America are ongoing. These overseas deployments are driving the high operations tempo and, thereby, further increasing operating costs and draining funds from investment areas.

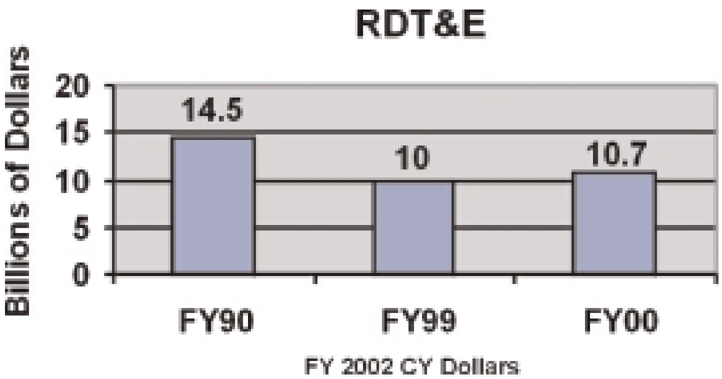
The Air Force has arrested its personnel drain through targeted funding of recruiting and retention programs and use of the Expeditionary Aerospace Force concept. It has worked hard to fix its mission readiness through increased funding for spares and replenishments. Now, with increased budgets in the near future, the Air Force can work at modernizing its weapons systems and reducing its operating costs.

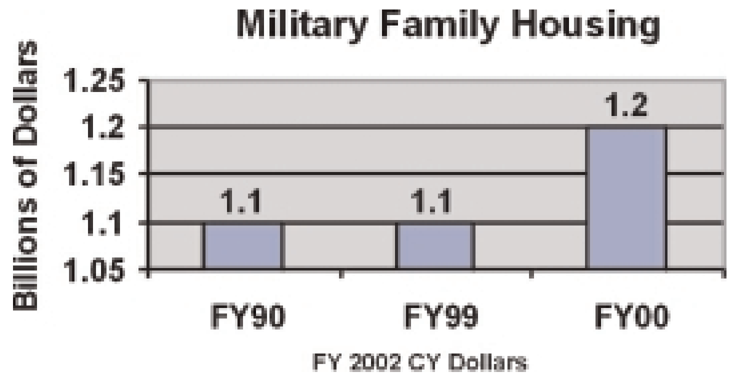
Budget by Appropriation Categories

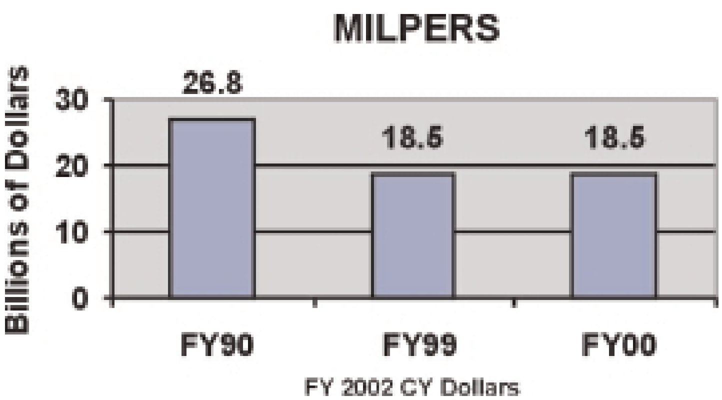
These trends in total budgetary authority are reflected in changes in the various components of the budget. There are six major appropriation categories, plus BRAC, that make up the Air Force FY 2000 budget of $70.8 billion (FY 2002 constant year dollars) in budget authority. Milpers dollars finance the salary and benefits of uniformed personnel. O&M pays the salaries and benefits of civilian employees and other day-to-day operating costs such as fuel and spare parts. RDT&E funds development of new weapons, and procurement (PROC) finances their purchase. Milcon pays for construction of facilities. MFH provides for the operation, maintenance, and construction of housing units.

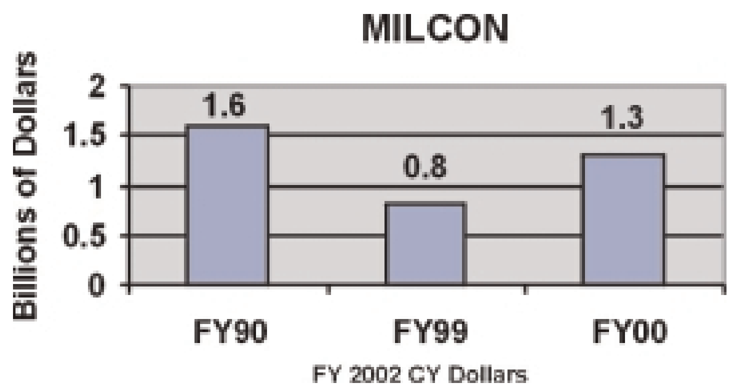


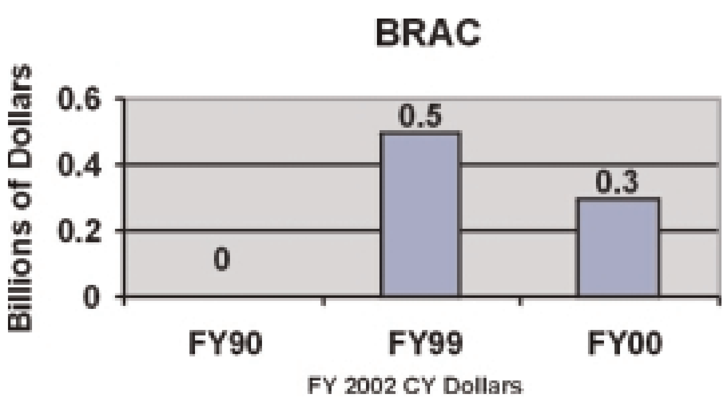












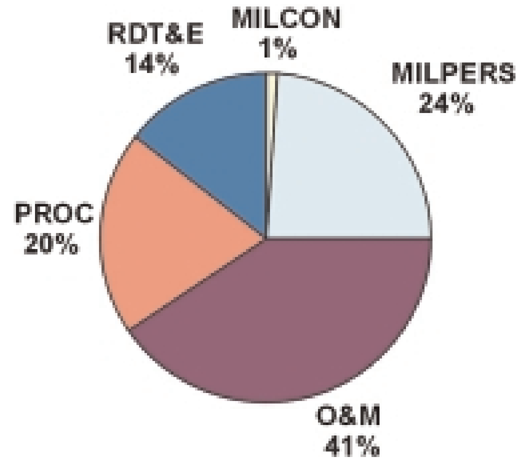
Note: Budget authority of $70.8 billion differs from figures in statements because of inflation adjustments to FY 2002 constant year dollars and presentation of only Blue Air Force total obligation authority (TOA) less the National Foreign Intelligence Program, Special Operations Command, and the Defense Health Program.

Budget by Core Competency

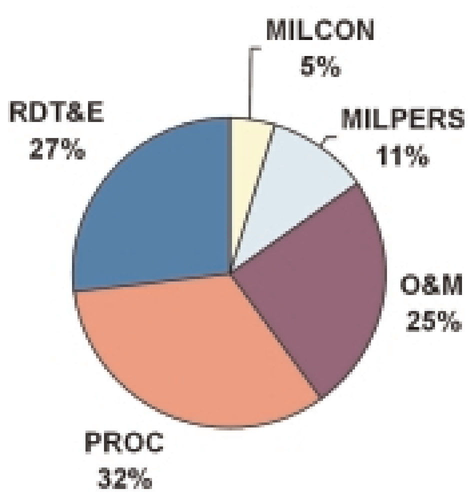
In addition to presenting its budget in the traditional appropriation and program structure formats, the Air Force budget also can be usefully described in terms of the service core competencies: air and space superiority, global attack, precision engagement, rapid global mobility, information superiority, and agile combat support. These core competencies are the foundation upon which the Air Force is building its vision for the 21st century—global engagement.

In addition to these six core competencies, the Air Force considers quality people and infrastructure essential to effectively performing our core competencies. The following charts show how the Air Force FY 2000 budget of $70.8 billion was divided by core competency.

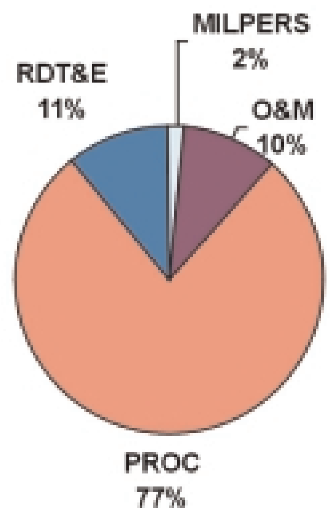
Global Attack ($13.0 Billion)



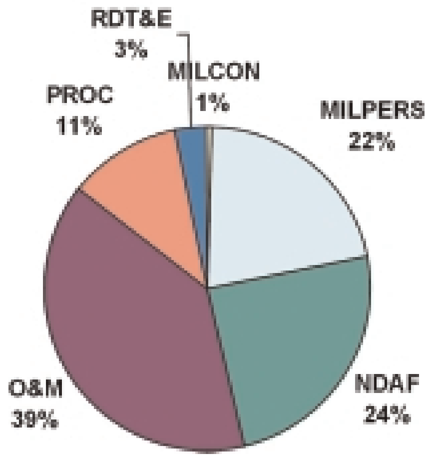
Air and Space Superiority ($12.1 Billion)



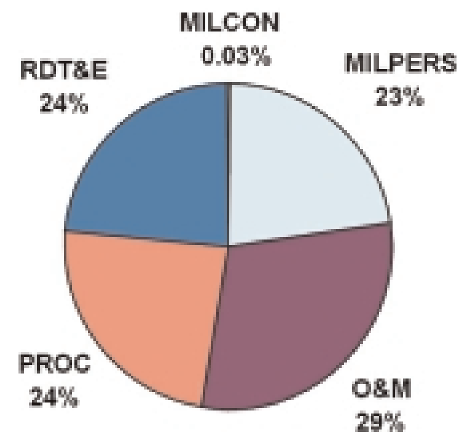
Precision Engagement ($1.3 Billion)



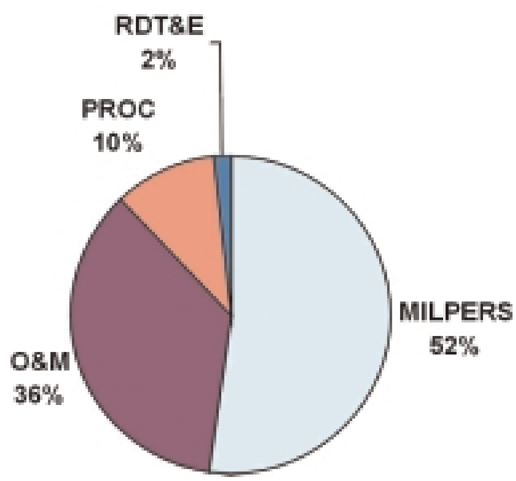
Rapid Global Mobility
($11.9 Billion)



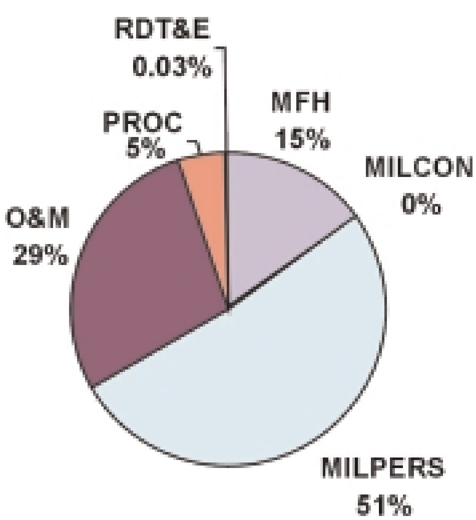
Information Superiority
($8.9 Billion)



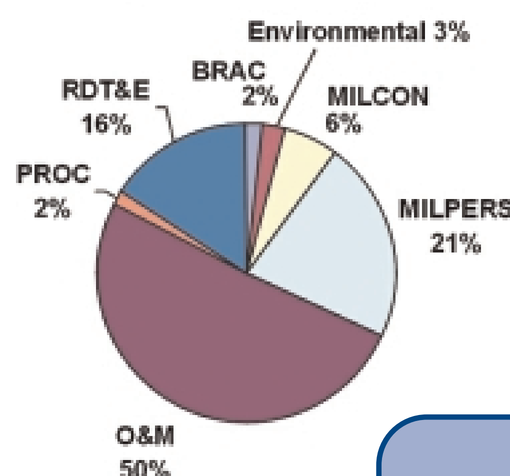
Agile Combat Support
($4.4 Billion)



Quality People
($7.3 Billion)



Infrastructure
($14.8 Billion)



Government Performance and Results Act

The Government Performance and Results Act (GPRA) requires that agencies establish a mission and the goals necessary to accomplish that mission. For each goal, the agency must develop performance measures and compare actual results in terms of those measures.

The Air Force's mission is to defend the United States through control and exploitation of air and space. To accomplish that mission, the Air Force's strategic plan includes the following three goals:

- Recruit and retain quality people
- Maintain optimal operational performance
- Modernize.

These Air Force goals are linked to the overall DoD goals. Recruiting and retaining people relates to the DoD goal of the same name. Maintaining optimal operational performance supports the DoD goal to have the forces necessary to shape and respond to the international environment. Modernizing forces supports the goal to prepare for an uncertain future.

This report section discusses each Air Force goal and selected performance measures associated with it. In keeping with the requirements of GPRA, actual performance in FY 2000 is compared with target performance where possible and the results are related to the Air Force budget for FY 2000.

The First Goal: Recruit and Retain Quality People

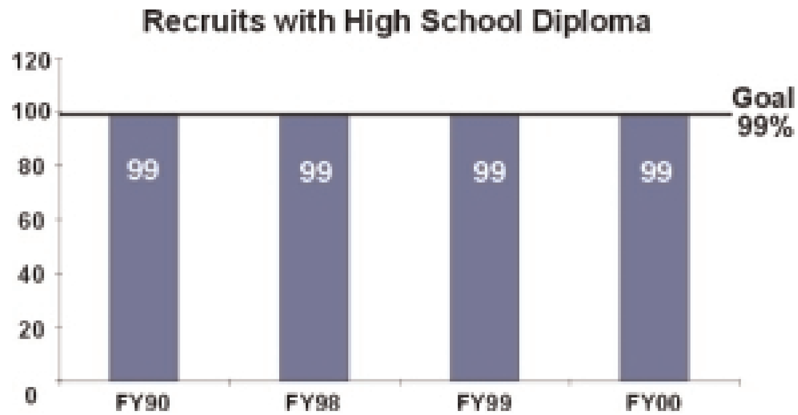
People are the Air Force's top priority. Because multiple deployments, crisis responses, and aging equipment are stressing Air Force manpower levels, additional manpower must be moved into the forces directly supporting the Expeditionary Aerospace Force. Recruiting and retaining the highest quality men and women are among the Air Force's greatest challenges in the current economic environment.

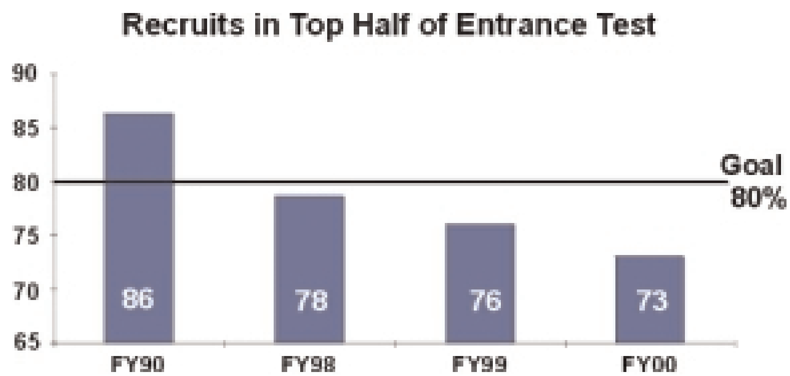
Recruiting

In FY 2000, the Air Force met its officer recruiting goal by accessing 5,513 new officers, compared to a target of 5,516. Although meeting its overall officer accession target, the Air Force was unable to produce the desired number of accessions with technical academic degrees and also fell short in several medical specialties.

The Air Force exceeded its enlisted recruits goal of 34,000 enlisted recruits by bringing in 34,369 recruits. In addition, the Air Force accessed 848 prior service members, helping to fill critical shortages in the mid-level enlisted ranks with experienced personnel.

Not only did the Air Force meet its goal for enlisted recruits, it did so without sacrificing quality. Enlisted recruit quality is typically measured by the percentage of new recruits who hold high school diplomas, a good measure of willingness to persist and complete training. Quality also is measured by the percentage of recruits who score in the top half (categories I to IIIA) on the entrance test given to all new recruits, which is a good measure of ability to learn complicated skills. The Air Force wants 99 percent of its new recruits to hold high school diplomas, and it met that goal in FY 2000 (see chart). The Air Force fell short of its goal on test scores, but 73 percent of new recruits scored in the top half on the test.

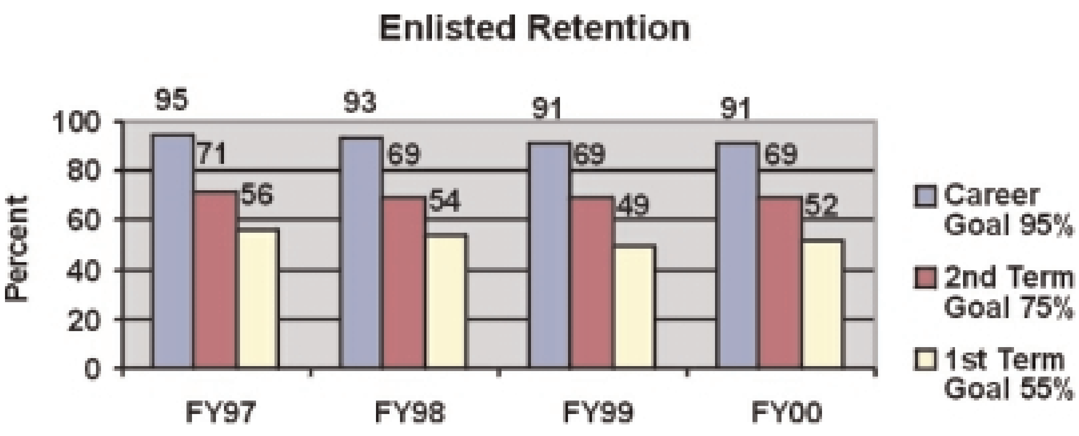




In response to the continuing recruiting challenges faced in FY 2000, the service conducted a three-month "cradle-to-grave" review of recruiting/accession/training pipeline processes. Focus areas included marketing, advertising, public awareness, recruiting, training pipeline, programs, manning, facilities, and funding. One hundred and twenty initiatives were vetted for implementation. A Recruiting and Retention Task Force was established to oversee implementation of these initiatives and to integrate and coordinate related activities. Initiatives that directly impacted the service's ability to meet its recruiting mission in FY 2000 include increased recruiter manning, expanded enlistment bonuses (including those targeted at critical skills and during historically difficult recruiting months), expanded prior service enlistment program, and expanded advertising efforts.

Retention

The Air Force failed to achieve its enlisted retention goals in FY 2000. Enlisted retention is measured by the percentage of reenlistment of eligible airmen who remain in service at the end of their first term, second term, and those on their third subsequent term of enlistment. The end of the first term occurs after the first four to six years of service. The second term ends after completing the second reenlistment, usually between eight and 10 years of service. Career status is attained after completion of approximately 10 or more years of serv-



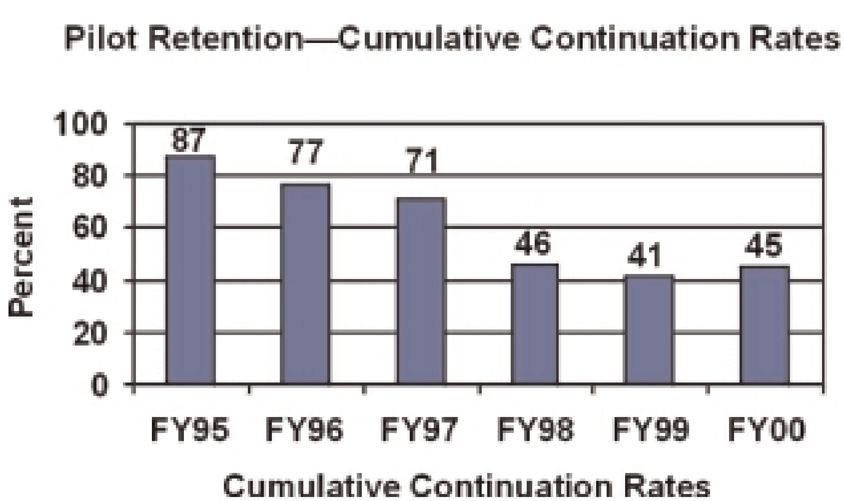
retaining another key category of personnel—pilots. Today, the Air Force is approximately 1,200 pilots (or nine percent) short of its requirement. The strong economy and airline hiring are key contributors to the shortage and will remain a challenge to pilot retention for the foreseeable future.

ice. As the above chart shows, the Air Force failed to meet its retention goals within all three reenlistment categories. Career retention stood at 91 percent at the end of FY 2000, compared to a goal of 95 percent. Also for FY 2000, second-term retention totaled 69 percent, compared to a goal of 75 percent, and first-term retention amounted to 52 percent, compared to a goal of 55 percent. While these goals were missed, retention of first term personnel did improve compared to FY 1999.

In addition to missing goals for retaining enlisted personnel, the Air Force also is having difficulty

Cumulative Continuation Rates (CCR) is one tool the Air Force uses to monitor pilot retention trends. Pilot CCR estimates the percentage of pilots entering their sixth year of service who, given current retention patterns, are expected to remain in the service through their 11th year. In FY 2000, pilot retention, measured by the six-to-11-year CCR, was 45 percent, a significant decrease from the high of 87 percent in FY 1995.

A robust, flexible Aviation Continuation Pay (ACP) program is integral to our multi-faceted game plan to retain pilots. We use ACP as a tool to influence rated retention and stabilize the rated force; compensation is offered in exchange for additional active duty service commitment. The Air Force's FY 2000 ACP program aggressively capitalized on the increased latitude and flexibility provided by Congress in the FY 2000 NDAA. Upon enactment, we began offering ACP payments through 25 years of aviation service at up to $25,000 per year and expanded eligibility to pilots below the rank of O-7. The expanded



program allows us to target/influence pilots in the few remaining larger year groups as they approach separation eligibility—before opportunity is lost. This has resulted in a substantial increase in committed labor-years. The program is helping us "hold the line" on current shortages until we can fully benefit from the positive effects of increased pilot production and the 10-year active duty service commitment for pilot training in FY 2000.

Why is the Air Force having retention problems? In addition to specific reasons noted above with regard to pilots, there are many overall factors. In some cases, the lure of higher wages in the private sector leads to departures. With the robust economy, job offers are plentiful and wages are high for many of the highly skilled people who work in the Air Force. The pay improvements enacted by Congress for FY 2000 are positive steps towards improving military compensation and will hopefully help offset some of these adverse retention trends.

High tempo, which results in long separations from family and friends, is another important factor in people leaving the Air Force. To reduce adverse impacts, the Air Force seeks to limit the amount of time personnel spend away from home on TDY to a maximum of 120 days per year. In FY 2000, 78 percent of active-duty Air Force personnel assigned to combat systems met this goal, and the average number of days Air Force personnel were deployed in support of contingencies/exercises declined by 32 percent from FY 1999. The Air Force undertook a major reorganization called the Expeditionary Aerospace Force. This reorganization will not reduce the amount of TDY time—which is determined largely by mission and training needs—but will provide Air Force personnel with more predictable and stable TDY schedules.

Training

Training was funded at the level of $6.5 billion during FY 2000. Training funds included a wide variety of expenditures, from the salaries of both trainers and trainees, to the operation of basic and advanced training bases, to the procurement of trainer aircraft and other support equipment, plus other expenses. Training funds were drawn from appropriations for military personnel, operations and maintenance, and procurement. Training funds rose 4.8 percent in FY 2000 from their FY 1999 level. This boost reflected an increase in the number of new personnel recruited to replace those who were separating from the service.

Pilot training is of particular concern to the Air Force, considering the number and quality of trained pilots bears so directly on the ability of the Air Force to accomplish its mission and because of the pilot shortages discussed previously. One key

Programmed Hours Per Crew Per Month						
	FY95	FY96	FY97	FY98	FY99	FY00
Fighter	19.9	20.0	19.3	17.0	17.7	17.2
Bomber	20.7	19.7	19.9	19.3	17.9	15.8
Tanker	16.0	15.4	16.2	18.4	17.0	17.1
Airlift	24.0	24.0	23.8	24.5	23.9	24.0

measure of pilot training is the hours per crew per month (HCM) that pilots spend flying and training. Because of its importance to training, and its effects on the budget, the Air Force monitors this goal closely. The charts show that after a sharp drop in programmed hours between FY 1997 and 1998, with an attendant drop in completed hours of programmed flying in 1998, both programmed flight hours and the completion rate of those hours began to return to their pre-1998 levels.

HCM is a programmatic indicator to show the impact Planning, Programming, and Budgeting System (PPBS) actions have on combat crews. HCM is an aggregate of different weapon systems in different commands. HCM values vary widely by weapon system and Major Air Command due to differences in mission profiles, crew composition, and training requirements for dissimilar aircraft. HCM includes combat and major combat support weapon systems only. Due to significant differences between categories,

Flying Hours Program Execution						
Hours in Millions	FY95	FY96	FY97	FY98*	FY99*	FY00*
Programmed	1.726	1.716	1.680	1.290	1.185	1.315
Actual	1.709	1.657	1.603	1.194	1.126	1.273
% Complete	99.0	96.6	95.4	92.5	95.0	96.8

**FY 1998, 1999, and 2000 hours are O&M flying hours. They do not include incremental contingency flying hours programmed or executed, Transportation Working Capital Fund (TWCF), reimbursable flying hours, medical evacuation, special operations, or RDT&E flying hours. Previous year's data included all hours programmed and flown. FY 1998 percent completed reflects 52,423 hours not executed but programmed for the T3 trainer aircraft. (Flight operations were suspended for the whole year.) If the total T3 program had been executed, the program would have been 96.5 percent complete. FY 1999 completion percentage does not include T3 hours in program or execution.*

HCM values are not aggregated in overall Air Force composite HCM.

Percent completion varies due to numerous factors such as fact-of-life program changes during the year, support to regional contingencies, weapons system retirement, and conversion of hours between weapon systems and aircraft flight operation suspensions.

The Second Goal: Maintain Optimal Operational Performance

Our fundamental capability is to dominate the aerospace realm to ensure freedom from attack, freedom to maneuver, and freedom to attack. This capability stems from our core competencies: aerospace superiority, global attack, precision engagement, information superiority, rapid global mobility, and agile combat support. Our heading stays constant: the Air Force vision of global reach, global power, and global vigilance is the guiding principle behind our strategic plan and budget programs for aerospace power.

Aerospace power cannot be defined just as fighters, bombers, or satellites. Aerospace power comes from talented, trained people employing a combination of systems and capabilities. It starts with our ability to operate out of austere bases and requires constant attention to the fundamentals of food, shelter, force protection, communications, airfield and mobility operations, and civil engineering. It includes the world's most capable air mobility assets and infrastructure, empowering the global reach capability without which forces and equipment could not move onto forward bases. At the next level, aerospace power requires intelligence, surveillance, and reconnaissance (ISR) assets in space and in the air that are interoperable and can communicate information back to command centers. At these centers, data can be digested and synthesized to form synergistic information that commanders can use to direct their forces and the battlespace.

In one contingency, our primary contribution may be C-17s delivering relief supplies. But as important as the C-17 is to such an operation, it would be of little use without the material handling equipment that allows it to be loaded and unloaded. Moreover, relief missions depend on layers of support from information systems, communication satellites, weather, navigation, and air refueling that come together to form an Air Force-unique capability: an air bridge. Similarly, the B-2 dropping the Joint Direct Attack Munition (JDAM) is an outstanding capability. But the B-2 cannot perform that mission without targeting data, which depends (as does the relief mission) on that same ISR and communications infrastructure. Moreover, both missions depend on the Global Positioning System (GPS), which in turn, requires a supporting infrastructure of space launch ranges and launch vehicles.

The new EAF concept enables the Air Force to meet the nation's increased demand for deployed forces. Without this reorganization, the force levels that exist today could not sustain this increased demand. EAF allows us to provide tailored forces to regional commanders, while keeping the force trained and ready to meet major commitments. But most importantly, it gives our people more predictable deployment schedules, adding needed stability to their family lives and career paths. Equally important, EAF allows us to make more effective use of the Guard and Reserve, reducing the operations tempo for all our forces. The new concept works by designating 10 packages of our forces, known as Aerospace Expeditionary Forces (AEFs), that rotate two at a time to be on call or deploy to regional hotspots. It also provides for five rotating mobility headquarters units, to meet demands for airlift. The reorganization required for this transition is largely complete. However, we must continue exercises and initiatives to improve our expeditionary capability by reducing deployment times, improving communications and en route planning, streamlining equipment loads, and honing our ability to operate from austere locations.

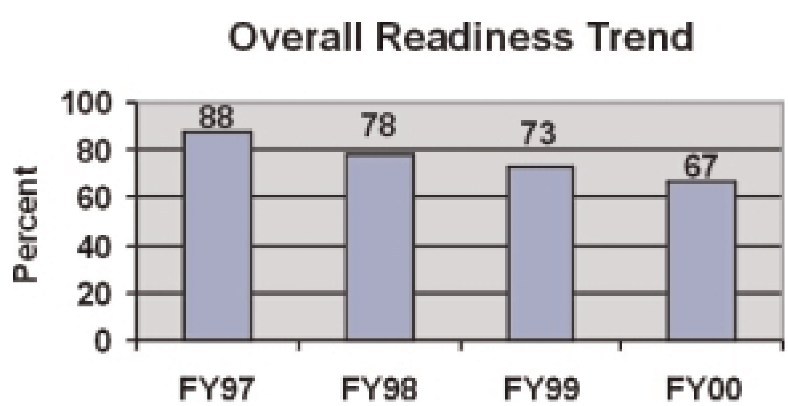
Mission Capable Rates

One key measure of readiness for aircraft is mission capable (MC) rates (expressed as the percentage of time USAF aircraft are ready to perform their required mission). By this measure, Air Force readiness amounted to 67 percent in FY 2000. This level is slightly below the level in FY 1999 and well below the FY 1997 level of 88 percent (see chart).

While the overall level is at 67 percent, mission capable rates vary widely by type of aircraft. The charts on the following pages show rates by type of aircraft.

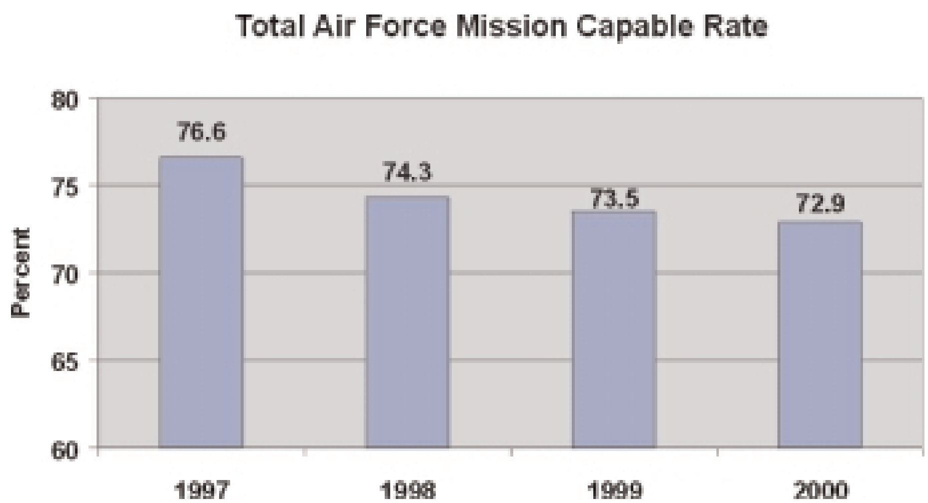
- Fighter and bomber MC rates appear to remain consistent or slightly better than FY 1999 rates at 74.3 percent, and 65.5 percent, respectively. The increase for fighters was 0.1 percent, 0.8 percent for bombers. Both groups, however, remain below the command goals, which vary by type of aircraft and range between 60 percent to 83 percent.
- Strategic airlift MC rates also incurred a slight decline after remaining steady or increasing for four of the past five years. FY 2000 strategic airlift MC rates are currently 68.1 percent.
- The MC rates for aircraft in the "other" category decreased (2.6 percent) from FY 1999 and remain below the lead command goals, which range between 75 percent to 85 percent.

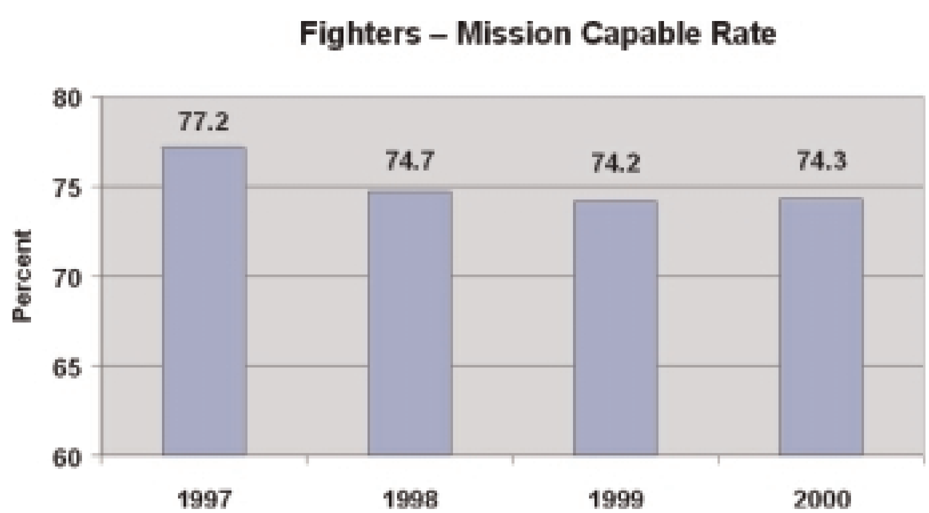
Several interrelated factors explain this decline in readiness and failure to meet goals. The most prominent factors leading to decline in MC rates are inconsistent spares funding and policy directives over the last decade, high operations tempo, maintenance manpower shortages, and most significantly, aging aircraft. Many efforts, including recent spares funding plus-ups and initiatives to fully fund current and future years spares requirements are beginning to have a positive impact on MC rates. However, the numerous factors delineated above cannot be rapidly corrected. It takes 18 to 24 months to realize delivery of spare parts requirements. For instance, as of September 2000, 67 per-

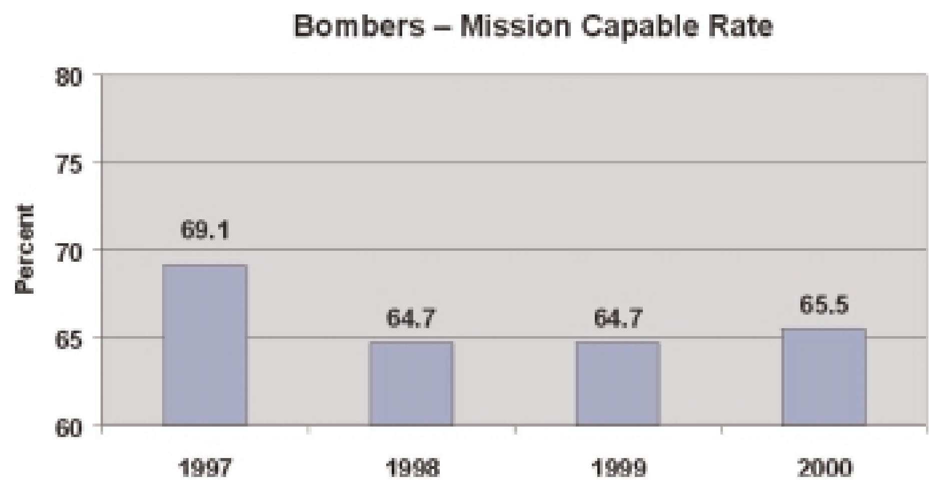


cent of the FY 1999 spare parts plus-ups had delivered. Non-MC rates attributed to supply appear to have leveled off in the past 12 months, but there is not enough evidence to indicate that we have turned the corner from the negative trends of the past years.

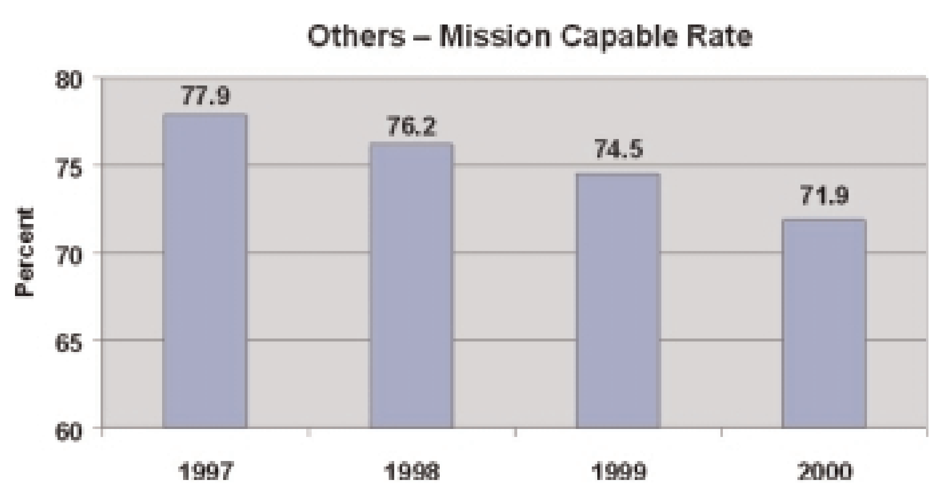
Air Force leadership efforts to address other factors are underway. The Expeditionary Aerospace Force initiative, featuring regular deployment schedules, appears to be stabilizing operations tempo and positively impacting retention levels. Recent testimony by the Air Force Chief of Staff (CSAF) emphasizes the need to recapitalize the force structure to mitigate the effects of aging aircraft and reparable parts. Ensuring operational readiness will continue to receive priority attention at all levels.

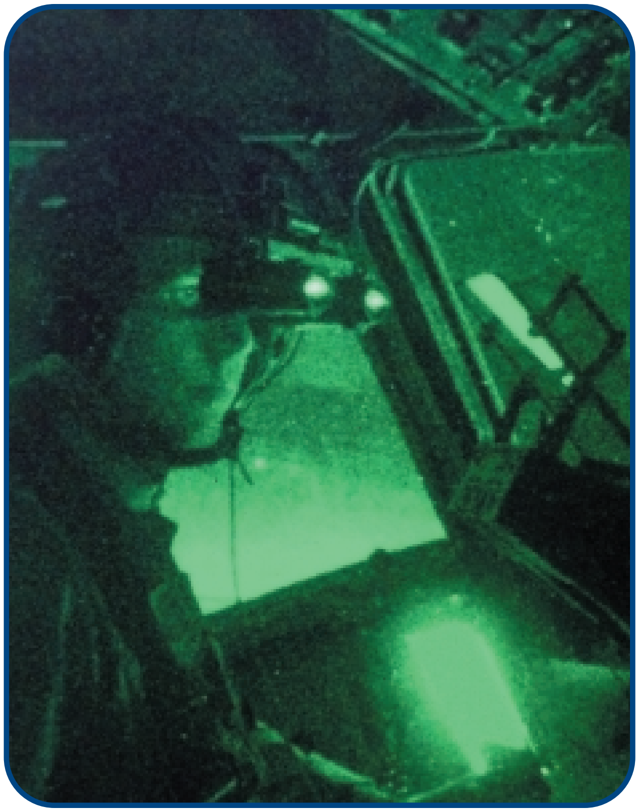





Bombers – Mission Capable Rate
Percent
80
75
70
65
60
69.1
64.7
64.7
65.5
1997
1998
1999
2000


Strategic Airlift – Mission Capable Rate
Percent
80
75
70
65
60
71.6
69.9
69.9
68.1
1997
1998
1999
2000


Others – Mission Capable Rate
Percent
80
75
70
65
60
77.9
76.2
74.5
71.9
1997
1998
1999
2000



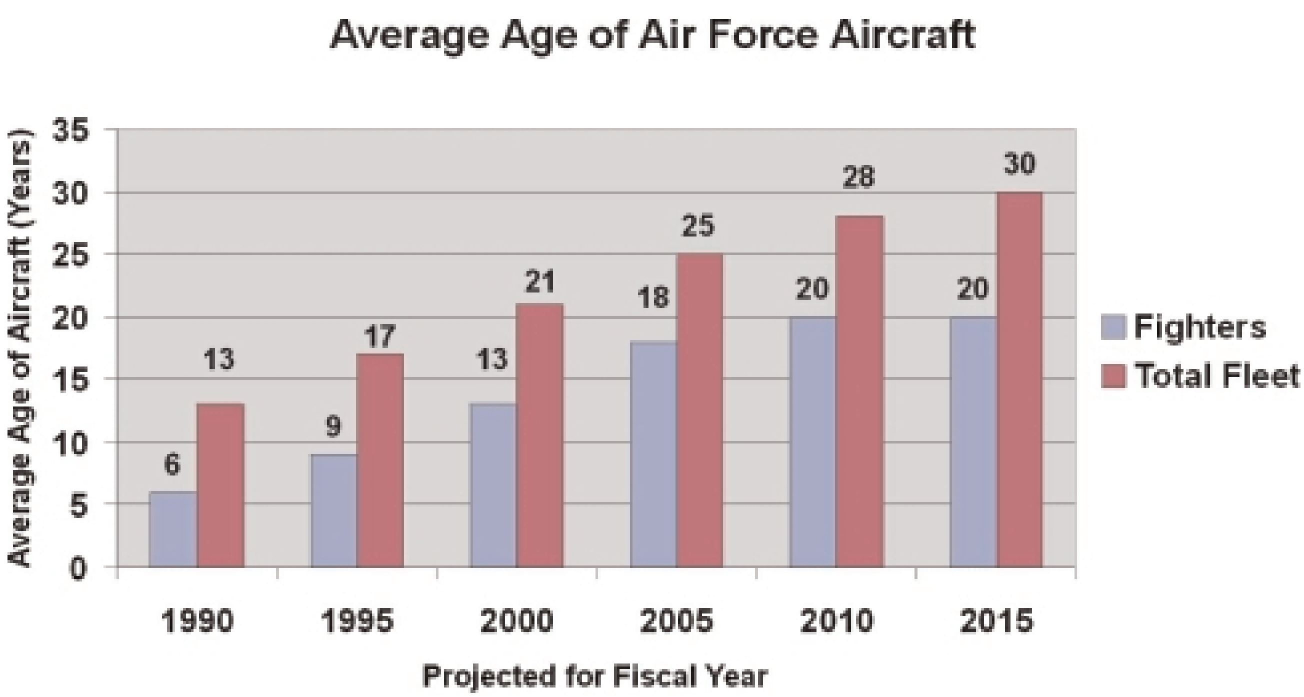
The Third Goal: Modernize

A major transformation emerged in the last decade when the Air Force became a stealth-enhanced, all-weather, day/night, precision force, but the precision revolution also has costs. First is the cost of integrating our new precision weapons onto our existing platforms—in many cases this requires extensive modifications. Now that we can bomb at night, we also must be able to fly safely at night, which means installing night vision goggles and related lighting in all combat aircraft. Precision weapons also require precise data on the location of targets—data that today must come from operations centers, satellites, UAVs, and supporting aircraft. This, in turn, drives a requirement to link our aircraft together through high-speed digital networks and to install better onboard targeting systems. We also must complete the integration of precision weapons into our Guard and Reserve aircraft—for EAF and precision to work, every strike aircraft must be capable of dropping precision ordnance. Finally, we also must invest in a suite of capabilities and training to decrease from hours to minutes the time it takes to identify and strike targets.

Full spectrum dominance is required to provide the joint force freedom from attack, freedom to maneuver, and freedom to attack at a time and place of our choosing, regardless of weather. Key to this goal is the Air Force's current high/low mix fighter force structure. This high/low fighter force structure is based on a high capability fighter—the F-15 now and the F-22 in the future—to provide air superiority and a low-cost fighter—the F-16 now and the Joint Strike Fighter (JSF) in the future—in large numbers for attack capability. Another key to dominance is the heavy bomber force, adding prompt global reach independent of theater basing constraints and high-mass precision engagement capability. The United States displayed its current aerospace dominance with the success of Operation Allied Force in Kosovo. Maintaining and improving the Air Force's ability to achieve future full spectrum dominance is a primary objective of the Air Force Modernization Program.

The key to achieving full spectrum dominance is the ability to control the vertical dimension so the joint force is free from attack and to attack. In the 21st century, aerospace superiority depends on the F-22 Raptor, to defeat enemy aircraft; the Space-based Infrared System (SBIRS), to provide early warning of long-range hostile missile threats; and the Airborne Laser (ABL), to provide a credible defense against theater ballistic missiles. The F-22 Raptor is the replacement for the F-15 and will dominate the vertical battlespace of the 21st century with its revolutionary combination of stealth, supercruise, maneuverability, and integrated avionics. The F-22—armed with the AIM-9X infrared short range air-to-air missile, an improved AIM-120 AMRAAM missile—and the Joint Direct Attack Munitions (JDAM) will destroy threats to our forces in the air and on the ground when it enters service in December 2005.

The average age of the Air Force aircraft fleet continues to rise, as shown in the chart. This is due in large part to the Cold War procurement of the 1980s ending abruptly with the demise of the Soviet Union. Current procurement funding for new weapon systems is not keeping pace with the need to replace aging systems. Without an increase in these procurement dollars, the difference between aircraft procurement and retirement will cause the average age of the aircraft fleet to increase at a rate of around 5.5 percent per year.



Key Modernization Programs

Aerospace Superiority	
F-22	The air dominance aircraft of the 21st century
Airborne Laser (ABL)	Provides theater ballistic missile defense
Evolved Expendable Launch Vehicle (EELV)	Assures America's future spacelift capabilities
Space-based Infrared System (SBIRS)	Consolidates national and DoD infrared space-based detection systems to meet the nation's needs in the areas of missile warning, missile defense, technical intelligence, and battlespace characterization
Space-based Laser	Envisioned to provide the nation with highly effective, continuous, boost phase intercept option for both theater and national missile defense
Information Superiority	
Global Hawk	Provides long-endurance, high-altitude, standoff, image collection capabilities
E-3 Airborne Warning and Control System (AWACS)	Provides all altitude surveillance, warning, and battle management for worldwide air combat operations
Multi-Platform Radar Technology Insertion Program (RTIP)	Developing a family of modular, scalable Active Electronically Scanned Array (AESA) radars for multiple platform requirements
U-2 and RC-135 Rivet Joint	Provides Joint Force Commanders superior ISR collection capability
Global Positioning System (GPS)	GPS navigation information is being integrated into nearly all facets of the modern battlefield and daily operations
Precision Engagement	
Joint Air-to-Surface Standoff Missile (JASSM)	Autonomous, long-range, precision-guided, standoff cruise missile able to strike a variety of high-value, heavily defended, fixed or relocatable targets
Joint Direct Attack Munitions (JDAM)	Delivers general purpose bombs in adverse weather with GPS/INS precision accuracy
Joint Standoff Weapon (JSOW)	Delivers cluster munitions against a variety of soft and armored area targets at ranges up to 40 nautical miles
Wind Corrected Munitions Dispenser (WCMD)	Provides accurate dispenser weapon capability when delivered from medium to high altitudes

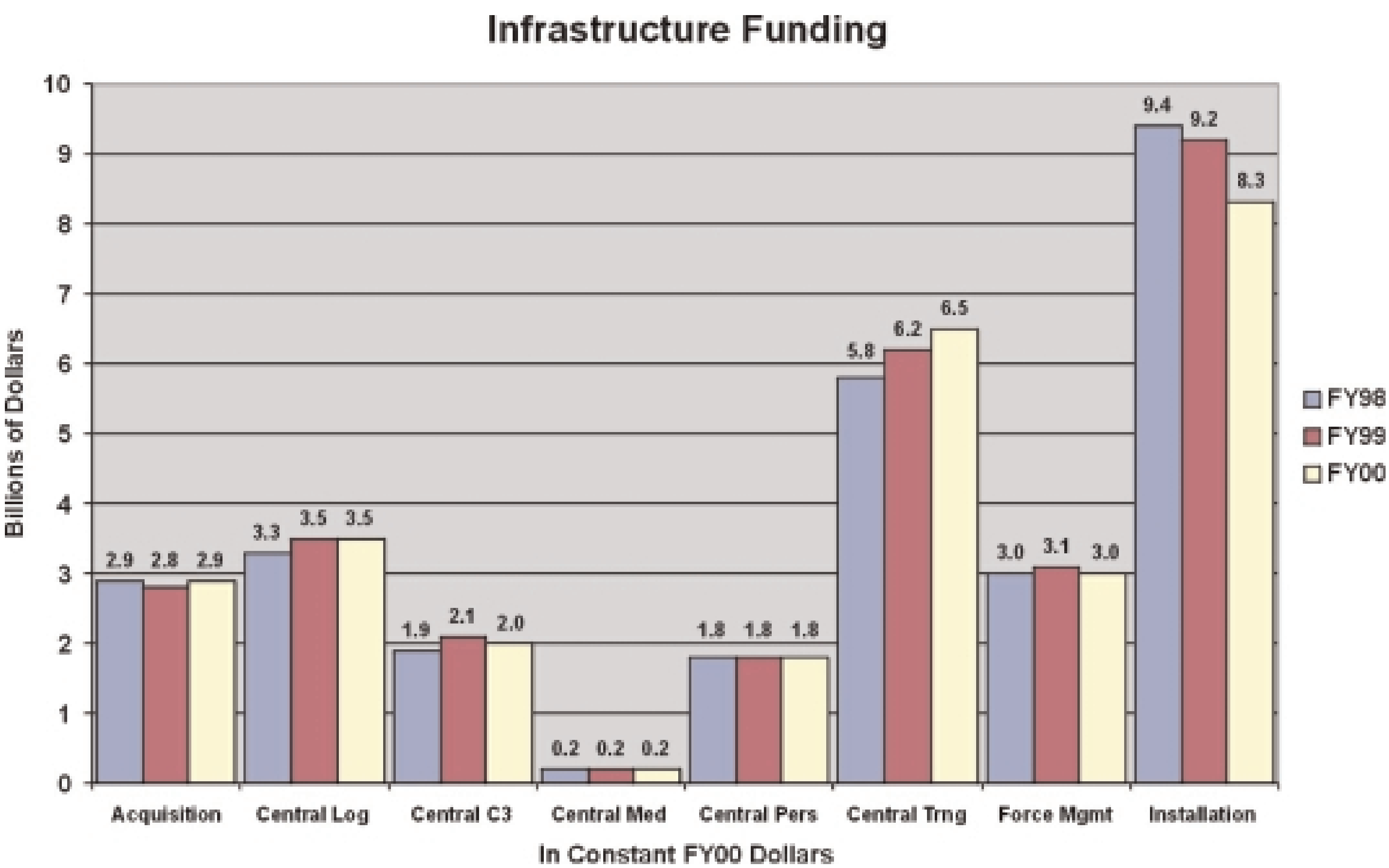
Global Attack	
Joint Strike Fighter (JSF)	Affordable, next generation, multi-role strike fighter to replace aging F-16 and A-10 fleet
B-1 Lancer, B-2 Spirit, and B-52 Stratofortress	Continuing modernization of the B-1, B-2, and B-52, coupled with precision guided munitions
F-15 Eagle and F-16 Falcon	Potent mix of air-to-air and air-to-surface capability
Rapid Global Mobility	
C-17 Globemaster III	Provides both intertheater and intratheater airlift missions
C-5 Galaxy	Long-range heavy cargo transport
CV-22 Osprey	Heavy vertical lift capability for the Special Operations Forces
Agile Combat Support	
Global Combat Support System (GCSS)	Improves Air Force responsiveness, mobility, and sustainability of deployed forces

Cost Effective Operations

Not only must the Air Force accomplish its mission; it must do this at the lowest reasonable cost. One way to measure efforts to hold down costs is to analyze the money spent on infrastructure.

Infrastructure is generally defined as all the people and programs that do not deploy in war but are necessary to maintain an effective combat capability. Infrastructure costs include those for installation support, training, central logistics support, acquisition support, and other support activities. It is what would be considered “overhead” in a commercial business enterprise. Total spending on infrastructure amounted to about $28.2 billion in FY 2000 or about 40 percent of the Air Force budget (FY 2000 dollars from FY 2001 program budget). While the Air Force does not have a specific goal for the level of its budget devoted to infrastructure, DoD has set a goal of spending 43 percent or less of its budget on infrastructure. By that measure, the Air Force is below the Office of the Secretary of Defense (OSD) goal.

In addition to besting the OSD goal, overall Air Force infrastructure funding declined between 1999 and 2000 in real terms. The overall decline reflected reductions in several categories of infrastructure, particularly installation support. On the other hand, a few categories increased. For certain categories, such as training, the increases were explained by the need to train more pilots and enlisted personnel to offset low retention rates. The Air Force continues to look for ways to reduce infrastructure costs to free funds to support its high operating tempo and to fund modernization.



Overview

Financial Management Reforms and Initiatives

The Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM) continues to place a high priority on financial reform. Through close cooperation with Air Force commanders and managers, the Air Force is making significant progress toward improving financial management and complying with the Chief Financial Officers (CFO) Act of 1990.

Financial Management Improvements

As in past years, the Air Force aggressively pursued its goals for financial management reform during FY 2000. Efforts continue to rely on many government groups, including Air Force Financial Management personnel, the Air Force Audit Agency, the Defense Finance and Accounting Service (DFAS), and other organizations.

Why Financial Reforms Are Needed

Financial management reform remains an urgent concern of the Assistant Secretary of the Air Force for Financial Management and Comptroller. The Air Force needs financial management reform to:

- Provide better financial information to our commanders and managers
- Improve confidence in the Air Force as good stewards of taxpayer dollars

- Meet the requirements of public law
- Support the President's goal for auditable financial statements.

There are many elements to successful financial reform. Among them are improvements in professional qualifications, achieving auditable financial statements, improving compliance with financial rules and regulations, improving cost accounting, and increasing accuracy, visibility, and efficiency.

Striving to achieve auditable financial statements, the Air Force has made significant progress in FY 2000. Efforts have concentrated on the following:

- **Improving financial data**—To this end we continue to improve financial accounting, budgetary accounting, and managerial cost accounting. The Air Force has cut unsupported and erroneous obligations by 80 percent. We have completed most major tests on our key budget statement.
- **Improving financial systems**—The Air Force continues an aggressive approach to improving all systems supplying financial information.
- **Improving professional qualifications**—The Air Force implemented a new comprehensive professional development program for financial managers to ensure that the Air Force has a highly capable financial work force.
- **Increasing compliance**—The Air Force created a base-level quality assurance position, established web-based control checklists, and produced quality statements of assurance.
- **Improving data accuracy, efficiency, and visibility**—The Air Force helped commanders and managers make better decisions through significant improvements in the availabilities and timeliness of selected financial information.

Improve Financial Data

The Air Force is striving to achieve auditable financial statements, consistent with the CFO Act. To this end, the Air Force is focusing on the accounting framework, which includes three accounting areas: budgetary accounting, financial accounting, and managerial cost accounting. For years, the Air Force's primary focus has been on budgetary accounting, tracking the expenditure of Air Force funds. With passage of the CFO Act, we began focusing on accounting for assets and liabilities, as private businesses do. Today, with the requirements for performance-based budgeting and reporting, managerial cost accounting is receiving much more attention.

Improving Budgetary Accounting

Over the past few years, the Air Force has placed extra emphasis on the Budgetary Resources Statement because of its importance in reflecting our stewardship responsibilities. This statement and the related disclosures presents information on three major elements. First is the funding authorized by Congress, second is the status of those funds, and third is the total obligated balance at the end of the fiscal year. To date, the Air Force has made considerable progress toward achieving a positive opinion on this statement. Two of the three major elements portrayed on this statement now are accurately presented. On the final element, composed chiefly of obligation balances, the financial community has taken significant steps to improve the year-end obligated balance by reviewing all obligations tri-annually for accuracy, completeness, timeliness and at the same time deobligating the funds that are no longer required. In addition, the Air Force Audit Agency, in conjunction with the DoD Inspector General, has contracted with a Certified Public Accounting firm to assist in the FY 2000 General Fund audit and to develop plans for the General Fund Financial Statements audit for 2001.

Improving Financial Accounting

The Air Force is working hard to improve its financial accounting, which offers two-tiered benefits—verify the accuracy of the data used to manage the Air Force and comply with the CFO Act. To this end, we are addressing the key deficiencies in

reporting assets and liabilities on the Air Force balance sheet.

In 1998, the Air Force established a CFO Integrated Process Team (IPT), headed by a senior financial and logistics manager. The IPT uses a coordinated approach, with representatives from all functional communities as well as the Air Force Audit Agency and the DFAS Denver Center. By working together and fully identifying, properly valuing, and correctly accounting for assets, liabilities and related transactions, the Air Force can solve the most significant audit issues, thus enabling the Air Force to earn at least a qualified opinion on its financial statements.

OSD formulated a series of implementation strategies and the Air Force developed supporting action plans designed to accomplish the improvements needed to achieve auditability of the balance sheet and other financial statements. These initiatives seek to make major improvements in how we account for assets such as real property, personal property, and inventory and how we account for liabilities such as environmental and disposal lia-

bilities. To further these efforts, the CFO IPT has incorporated the implementation strategy initiatives into their team plans.

As a result of the CFO IPT's work on the implementation strategies, the Air Force is reporting better data on its financial statements. In FY 2000, the Air Force worked with DoD and a private firm to verify the amount of its "personal" property and to strengthen its internal controls over equipment. Through full implementation of its real property system, the Air Force now is able to present its real property assets consistent with financial management requirements. The Air Force has made great strides in recognizing its environmental liabilities.

Improving Managerial Cost Accounting

A primary objective of the financial management community is providing commanders with better cost information to aid decision making. Several key initiatives illustrate our progress in this area.

During FY 2000, the Air Force continued to improve the Air Force Total Ownership Cost (AFTOC) management information system. AFTOC provides detailed information on the costs of supporting weapon systems. The Commanders' Resource Integration System (CRIS) will provide a data warehouse information storage and analysis system, a tool for performing resource analysis of flying hour programs. Plans are underway to merge the AFTOC and CRIS databases, resulting in an Air Force Central Cost Data Warehouse.

Another major Air Force undertaking is deployment of the Depot Maintenance Accounting and Production System (DMAPS)/Defense Industrial Financial Management System (DIFMS), which will provide actual data on repair costs for major weapons—a major improvement in cost accounting in a business that spends about $4 billion per year.

Improve Financial Systems

The Air Force is working to ensure that critical "feeder" systems—systems that provide financial data to the accounting systems—are compliant with all Federal financial management requirements. The massive effort of upgrading the critical feeder systems to comply with Federal financial management requirements has been underway since 1996, when the Air Force first identified the critical feeder systems.

The goal is to have all systems compliant by September 2003. To this end, in FY 2000 the Air Force implemented a "Y2K-like" approach to managing the system fixes. Feeder system managers must ensure that they take their systems through the steps of awareness, assessment, renovation or replacement, validation, and compliance. This approach tracks our progress toward CFO Act compliance. At the close of FY 2000, 42 feeder systems were classified as critical. Twenty-five of these feeder systems have plans to migrate the system or data to other systems. Of the remaining 17 systems, two are in the validation phase, 10 are in the renovation phase, and five remain in the assessment phase.

Several of our most important systems have made significant progress. Two are undergoing validation in preparation for certification—Airlift Services Industrial Funds Integrated Computer System (ASIFICS) and Aerospace Maintenance and Regeneration Center (AMARC) Business System (ABS). Two other major systems are expected to begin validation in FY 2001—the new Automated Civil Engineer System–Real Property (ACES-RP) and Air Force Equipment Management System (AFEMS). ACES-RP is now fully implemented with its installation at Air National Guard sites in FY 2000. ACES-RP's system design included compliance requirements and is ready for validation. AFEMS, which handles most types of personal property, has completed the required modifications for CFO Act compliance and also is ready for validation.

One of the largest and most complex of the modifications to feeder systems is a suite of systems supporting the Air Force depots that repair aircraft and other weapon systems. The Depot Maintenance Accounting and Production System (DMAPS) and associated Defense Industrial Financial Management System (DIFMS) will provide much better cost accounting data and also are designed to comply with the CFO Act. Conversion of the first depot

to DMAPS/DIFMS has already begun and is scheduled to be completed in FY 2001. The remaining depots will begin conversion in FY 2001.

Improve Professional Qualifications

The Air Force is making an effort to improve the professional qualifications of our financial management personnel. In May 1999, the senior Air Force financial management leadership issued guidelines for the professional development of its financial managers. These guidelines apply to those in designated positions that are involved in policy decisions or are responsible for enforcing financial laws and regulations. However, the leadership is encouraging all financial management personnel to follow the guidelines and to complete an Individual Development Plan that explains how they will meet the guidelines.

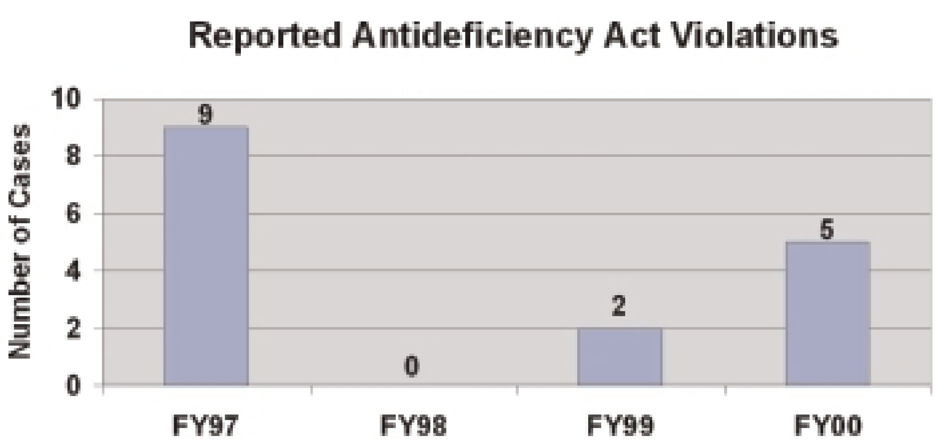
The guidelines for professional development cover continuing professional education (CPE), general education, professional and military education, experience, and test-based certification. There are three levels of guidelines depending on the seniority of the designated position. The specific provisions of the guidelines can be found on the SAF/FM web site (www.saffm.hq.af.mil).

Continuing professional education is a key part of these guidelines because it enables financial managers to stay informed of the many changes in financial management. The guidelines call for those in designated positions to obtain 80 hours of CPE every two years, with at least 20 hours in each year. For those Air Force personnel who sometimes have difficulty completing CPE because they work at remote locations and have unpredictable schedules, Air Force financial leaders plan to make CPE easier to complete. SAF/FM has created CPE using distance learning courses, videotapes, articles and quizzes on the SAF/FM home page, and other techniques. More courses are in development to expand training opportunities.

The guidelines also encourage financial managers to obtain a test-based certification. As part of this effort, the Air Force supports the American Society of Military Comptrollers in its efforts to develop training and a test-based certification program focused on defense financial matters. That training began in January 2000, and the exam is available—many already have been certified. The Air Force, in conjunction with the other services, is providing training on financial issues, including those the exam will cover.

Increase Compliance

A successful financial management environment demands a system of checks and balances to ensure compliance with financial laws and regulations. Over the past year, the Air Force Accounting and Finance Office has capitalized on technological advancements to achieve increased financial compliance. Working with financial experts from the field, they reviewed current business practices and identified critical processes for incorporation into a set of standardized self-inspection criteria. These new criteria were made available to the entire financial management community through the implementation of a new web-based Self-Inspection Program (SIP), which encompasses all facets of Air Force financial operations and was designed to ensure standardization while allowing growth with the ever-changing business environment. The SIP will help ensure compliance and reduce financial fraud.

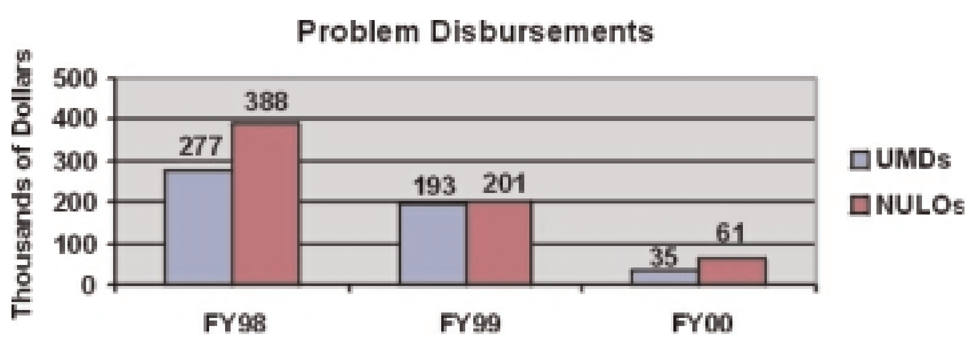


The Air Force continues to make significant progress in one key area of compliance, the number of reportable Antideficiency Act (ADA) violations. Because antideficiency cases can be violations of Federal law, the number of reported violations are one indicator of the adequacy of Air Force's administrative funds control processes. In FY

1998, the Air Force had no antideficiency violations. This represents a significant reduction from FY 1997 when nine antideficiency cases were reported. Two antideficiency cases were reported in FY 1999, with a slight increase to five reportable cases in FY 2000.

The Air Force is placing more emphasis on preventive initiatives, including increased fiscal and appropriation law training, along with comprehensive management program and budget reviews. Last year, the Air Force completed a web-based fiscal law course specifically directed at persons with responsibility for ensuring the proper use of appropriated funds. The training focuses on the body of law that governs the availability and use of Federal funds. This self-administered and certifying training course will assist financial managers in establishing, reviewing, and maintaining effective administrative controls over appropriations and funds. Additional improvement in the Air Force antideficiency program is attributable to increased support for senior SAF/FM leaders, more attention and involvement from major command financial management organizations identifying and investigating antideficiency cases, better screening of suspected violations, and improved antideficiency training. The Air Force also works with DFAS to reduce the overall level of problem disbursements. Problem disbursements are made up of unmatched disbursements (UMDs) and negative unliquidated obligations (NULOs). A UMD is a financial disbursement that cannot be readily matched to a recorded obligation. A NULO is a financial disbursement that appears to exceed the obligation to which it has been matched. The work done in this area has achieved great progress (see chart).

As the chart shows, problem disbursements fell sharply from a total of $394 million in 1999 to a total of only $96 million in FY 2000. The Air Force and DFAS are making a concerted effort to reduce the overall level of problem disbursements, using techniques such as pre-validation of obligations before disbursements are made.



Improve Data Accuracy, Efficiency, and Visibility

The Air Force is using the latest computer technologies to improve its accuracy of entering financial information, while at the same time improving efficiency of inputting this data. The Air Force also is deploying systems that will improve access and visibility of numerous types of resource information. This visibility increases the potential to spot and fix errors, plus provides better and broader financial analysis. Summarized below are some of the systems being improved or deployed.

Automated Business Services System (ABSS)

ABSS is now fully deployed to all active-duty Air Force locations and will be deployed within the next year to all Reserve and Guard locations. ABSS was designed to improve financial efficiency and accuracy in response to the vice-presidential mandate for the DoD to achieve paperless acquisition. ABSS has met and exceeded this mandate by processing more than 90 percent of the Air Force's acquisition documents in paperless format thanks to ABSS's ability to automate funding documents, such as purchase requests, and electronically feed the accounting and contracting systems with commitment data.

Accuracy also has improved tremendously with ABSS and its Electronic Data Interchange. Point-and-click, drag-and-drop user interfaces and the ability to flow data electronically throughout the acquisition process is a significant achievement. This single-point-of-entry attribute, plus the ability to trace a document, has led to decreased negative unmatched obligations and unmatched disbursements.

ABSS will continue to improve on it successes in the next year by introducing public key infrastructure (PKI) encryption technology, thereby improving internal controls and reducing paper, providing additional and more detailed system interfaces, and installing low maintenance but improved customer interfaces using the latest web-based techniques.

LeaveWeb

This simple but effective military leave processing system uses web technologies to increase the accuracy and timeliness of military leave and pay accounting. The new system, being deployed over the next two years, allows a military member to go online and find a LeaveWeb form using their standard web browser. Like ABSS, a member's information is entered once, then flows from person-to-person, office-to office as electronic data. Anyone within the chain of command with proper permission rights (supervisors, orderly rooms, commanders, etc.) may access this information online to approve or deny a leave request, determine leave status, run unit analysis reports, or make administrative changes. At the end of every day, a military pay technician downloads the stored information, digitally certifies the data for accuracy, then uploads the information to DFAS using the military pay systems. With the use of LeaveWeb, leave accounting accuracy is expected to improve 100 percent, while customer satisfaction and efficiency also will improve dramatically.

Commanders' Resource Integration System (CRIS)

CRIS is a prototype data warehouse information storage and analysis system developed by ACC Financial Management to provide in-depth resource analysis of their flying hour program. The system takes daily data feeds from legacy finance, logistics, and operations systems and puts them in a central data warehouse. The data is cleansed and balanced for accuracy, then is stored or delivered to its customers for analysis. A customer can access the data warehouse using an online access tool, similar to a Microsoft Excel spreadsheet, to find the data. Because CRIS gathers data from numerous stovepipe legacy systems, for the first time the analyst has access to the entire procurement, accounting, and logistics process. This new capability allows the Air Force to correct inaccuracies between systems, substantially reduce the time spent on data collection and analysis, and provide rock-solid financial justifications.

CRIS's future is to expand the ACC data warehouse to include all Air Force data (more than two terabytes per year) and deploy the data to other major commands in FY 2001 and to all bases in FY 2002. This new access to total resource data should provide another invaluable tool to achieving CFO Act compliance.

Automated Purchase Card System (APCS)/Customer Automation and Reporting Environment (CARE)

The APCS has been a real success story in the Air Force financial management world. The Air Force has realized nearly $2 million in rebates each quarter in FY 2000. Most of the rebate can be attributed to our quick turn-around time for making payments to U.S. Bank, the purchase card issuer. The Department of Defense also recognizes the need to automate the purchase card process and has been working with U.S. Bank on the CARE system. Several Army installations went live with CARE in FY 2000, and the Air Force will begin rolling out CARE to stateside bases in early 2001. CARE contains the same functionality as APCS and includes additional features that will assist cardholders and

approving officials in managing the program. CARE allows for account setup and maintenance and contains an automated purchase card log and reconciliation tool, which will greatly reduce the amount of time and effort the financial management community expends in obtaining confirmation statements. It also allows charges to be reallocated to other accounting lines after payment, without preparing manual journal vouchers. All accounting entries are processed through CARE, thereby reducing or eliminating technician errors within DFAS or the Financial Service Offices. APCS will still be required until the two overseas commands, PACAF and USAFE, can be converted to CARE. If all goes well with the stateside implementation, this will occur in early FY 2002.

General Funds

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with Federal accounting standards. At times, the Air Force is unable to implement all elements of the standards due to financial management systems limitations. The Air Force continues to implement system improvements to address these limitations. There are other instances when the Air Force's application of accounting standards is different from the auditor's application of the standards. In those situations, the Air Force has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for ND property, plant, and equipment (PP&E). Therefore, DoD elected to report ND PP&E in fiscal year 2000 in a manner similar to how it was reported in fiscal year 1998 and fiscal year 1999. DoD, as encouraged by FASAB, implemented early for fiscal year 1998 the then-proposed amendments to the accounting standards that required reporting of quantities, condition, and investment trends for major types of ND PP&E. At subsequent FASAB meetings, the board chose not to implement the proposed amendments but to continue studying various alternatives for reporting ND PP&E. These studies were ongoing in fiscal year 2000.

Because FASAB did not adopt the proposed amendments, DoD is not fully compliant with the existing reporting requirements that require the Air Force to report the value of ND PP&E. DoD cannot fully comply with the existing reporting requirement because many of the Air Force's ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, not for reporting the value of ND PP&E.

Given the complexity of the existing temporary reporting requirements, the enormous cost of implementing those temporary reporting requirements, and the interim nature of the temporary reporting requirements, DoD is continuing to use the prior year reporting disclosure. Further, DoD believes the most reasonable and responsible course of action is to report quantity and investment information for the DoD's ND PP&E until such time that FASAB adopts permanent reporting requirements.

General Funds

Principal Statements

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

As of September 30, 2000
($ in Thousands)

ASSETS (Note 2)	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	$ 40,541,322
Investments (Note 4)	1,303
Accounts Receivable (Note5)	284,642
Other Assets (Note 6)	185,293
Total Intragovernmental Assets	$ 41,012,560
Cash and Other Monetary Assets (Note 7)	$ 64,982
Accounts Receivable (Note 5)	506,228
Inventory and Related Property (Note 9)	19,269,788
General Property, Plant and Equipment (Note 10)	20,536,756
Other Assets (Note 6)	4,802,609
TOTAL ASSETS	$ 86,192,923
LIABILITIES (Note 11)	
Intragovernmental:	
Accounts Payable (Note 12)	$ 997,903
Debt (Note 13)	109
Other Liabilities (Note 15 & Note 16)	1,714,999
Total Intragovernmental Liabilities	$ 2,713,011
Accounts Payable (Note 12)	$ 4,174,733
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,123,249
Environmental Liabilities (Note 14)	7,715,253
Other Liabilities (Note 15 and Note 16)	3,245,483
TOTAL LIABILITIES	$ 18,971,729
NET POSITION	
Unexpended Appropriations (Note 18)	$ 35,330,934
Cumulative Results of Operations	31,890,260
TOTAL NET POSITION	$ 67,221,194
TOTAL LIABILITIES AND NET POSITION	$ 86,192,923

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

For the year ended September 30, 2000
($ in Thousands)

Program Costs	
Intragovernmental	$ 17,764,148
With the Public	65,236,037
Total Program Cost	$ 83,000,185
(Less: Earned Revenue)	(2,959,049)
Net Program Costs	$ 80,041,136
Net Costs of Operations	$ 80,041,136

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

See notes 1 and 19.

For the year ended September 30, 2000
($ in Thousands)

Net Cost of Operations	$ 80,041,135
Financing Sources (other than exchange revenues)	
Appropriations Used	82,974,178
Donations - Nonexchange Revenue	2,450
Imputed Financing (Note 20)	535,443
Transfers - in	75,431
Total Financing Sources (other than Exchange Revenues)	$ 83,587,502
Net Results of Operations	$ 3,546,367
Prior Period Adjustments (Note 20)	(5,466,041)
Net Change in Cumulative Results of Operations	$ (1,919,674)
Increase (Decrease) in Unexpended Appropriations	(614,650)
Change in Net Position	$ (2,534,324)
Net Position-Beginning of the Period	69,755,519
Net Position-End of the Period	$ 67,221,195

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

See notes 1 and 20.

For the year ended September 30, 2000
($ in Thousands)

BUDGETARY RESOURCES		
Budget Authority	$	83,748,021
Unobligated Balance - Beginning of Period		7,308,408
Net Transfers Prior - Year Balance, Actual		227,055
Spending Authority from Offsetting Collections		5,053,092
Adjustments		(990,216)
Total Budgetary Resources	$	95,346,360
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$	88,241,307
Unobligated Balances - Available		6,232,287
Unobligated Balances - Not Available		872,766
Total, Status of Budgetary Resources	$	95,346,360
OUTLAYS		
Obligations Incurred	$	88,241,307
Less: Spending Authority from Offsetting Collections and Adjustments		(6,508,028)
Obligated Balance, Net - Beginning of Period		34,001,921
Obligated Balance Transferred, Net		0
Less: Obligated Balance, Net - End of Period		(33,410,761)
Total Outlays	$	82,324,439

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

See notes 1 and 21.

For the year ended September 30, 2000
($ in Thousands)

OBLIGATIONS AND NONBUDGETARY RESOURCES:	
Obligations Incurred	$ 88,241,307
Less: Spending Authority from Offsetting Collections and Adjustments	(6,508,028)
Financing Imputed for Cost Subsidies	535,443
Transfers-In (Out)	75,431
Less: Exchange Revenue Not in the Entity's Budget	(406)
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(72)
Total Obligations as Adjusted and Nonbudgetary Resources	$ 82,343,675
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$ 851,353
Change in Unfilled Customer Orders	(87,354)
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(8,401,800)
Financing Sources that Fund Costs of Prior Periods	60,810
Total Resources That Do Not Fund Net Costs of Operations	$ (7,576,991)
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
Depreciation and Amortization	$ 888,923
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	1,600
Revaluation of Assets and Liabilities - Increases/(Decreases)	6,953,905
Loss on Disposition of Assets	20,162
Other - (Increases)/Decrease	(4,601,822)
Total Costs That Do Not Require Resources	$ 3,262,768
FINANCING SOURCES YET TO BE PROVIDED	$ 2,011,685
NET COST OF OPERATIONS	$ 80,041,137

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

See notes 1 and 22.

As of September 30, 2000
($ in Thousands)

	Air Force Active	Air Force Reserve	Air National Guard
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	$ 38,605,609	$ 753,081	$ 1,182,632
Investments (Note 4)	1,303	0	0
Accounts Receivable (Note5)	259,363	23,809	109,613
Other Assets (Note 6)	183,512	692	1,116
Total Intragovernmental Assets	$ 39,049,787	$ 777,582	$ 1,293,361
Cash and Other Monetary Assets (Note 7)	$ 64,982	$ 0	$ 0
Accounts Receivable (Note 5)	492,156	3,214	10,858
Inventory and Related Property (Note 9)	19,258,263	0	11,525
General Property, Plant and Equipment (Note 10)	18,024,062	498,732	2,013,942
Other Assets (Note 6)	4,799,320	2,033	1,256
TOTAL ASSETS	$ 81,688,590	$ 1,281,561	$ 3,330,942
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	$ 920,913	$ 73,732	$ 96,180
Debt (Note 13)	109	0	0
Other Liabilities (Note 15 & Note 16)	1,709,076	5,454	15,717
Total Intragovernmental Liabilities	$ 2,630,098	$ 79,186	$ 111,897
Accounts Payable (Note 12)	$ 4,036,637	$ 115,732	$ 22,364
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	808,828	117,086	197,335
Environmental Liabilities (Note 14)	7,715,253	0	0
Other Liabilities (Note 15 and Note 16)	3,156,750	20,350	68,383
TOTAL LIABILITIES	$ 18,347,566	$ 332,354	$ 399,979
NET POSITION			
Unexpended Appropriations (Note 18)	$ 33,594,393	$ 575,491	$ 1,161,050
Cumulative Results of Operations	29,746,631	373,716	1,769,913
TOTAL NET POSITION	$ 63,341,024	$ 949,207	$ 2,930,963
TOTAL LIABILITIES AND NET POSITION	$ 81,688,590	$ 1,281,561	$ 3,330,942

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

See notes 1 and 21.

Combined Total	Intra-Entity Eliminations	Consolidated Total
$ 40,541,322	$ 0	$ 40,541,322
1,303	0	1,303
392,785	108,143	284,642
185,320	27	185,293
$ 41,120,730	$ 108,170	$ 41,012,560
$ 64,982	$ 0	$ 64,982
506,228	0	506,228
19,269,788	0	19,269,788
20,536,756	0	20,536,756
4,802,609	0	4,802,609
$ 86,301,093	$ 108,170	$ 86,192,923
$ 1,090,825	$ 92,922	$ 997,903
109	0	109
1,730,247	15,248	1,714,999
$ 2,821,181	$ 108,170	$ 2,713,011
$ 4,174,733	$ 0	$ 4,174,733
1,123,249	0	1,123,249
7,715,253	0	7,715,253
3,245,463	0	3,245,463
$ 19,079,899	$ 108,170	$ 18,971,729
$ 35,330,934	$ 0	$ 35,330,934
31,890,260	0	31,890,260
$ 67,221,194	$ 0	$ 67,221,194
$ 86,301,093	$ 108,170	$ 86,192,923

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

See notes 1 and 21.

For the year ended September 30, 2000
($ in Thousands)

	Air Force Active	Air Force Reserve	Air National Guard
Program Costs			
A. Military Personnel			
Intragovernmental	$ 3,095,384	$ 128,644	$ 209,531
With the Public	14,878,073	746,193	1,375,250
Total Program Cost	$ 17,973,457	$ 874,837	$ 1,584,781
(Less: Earned Revenue)	(240,038)	(1,074)	(23,572)
Net Program Costs	$ 17,733,419	$ 873,763	$ 1,561,209
B. Operation and Maintenance			
Intragovernmental	$ 11,177,416	$ 748,840	$ 1,735,970
With the Public	16,610,663	1,090,869	1,838,722
Total Program Cost	$ 27,788,079	$ 1,839,709	$ 3,574,692
(Less: Earned Revenue)	(2,008,714)	(61,306)	(268,563)
Net Program Costs	$ 25,779,365	$ 1,778,403	$ 3,306,129
C. Procurement			
Intragovernmental	$ 720,672	$ 0	$ 0
With the Public	13,086,014	0	0
Total Program Cost	$ 13,806,686	$ 0	$ 0
(Less: Earned Revenue)	(162,385)	0	0
Net Program Costs	$ 13,644,301	$ 0	$ 0
D. Research, Development, Test & Evaluation			
Intragovernmental	$ 319,458	$ 0	$ 0
With the Public	14,488,087	0	0
Total Program Cost	$ 14,807,545	$ 0	$ 0
(Less: Earned Revenue)	(582,517)	0	0
Net Program Costs	$ 14,225,028	$ 0	$ 0
E. Military Construction/Family Housing			
Intragovernmental	$ 11,160	$ 5,242	$ 361
With the Public	698,523	79,792	342,808
Total Program Cost	$ 709,683	$ 85,034	$ 343,169
(Less: Earned Revenue)	0	0	0
Net Program Costs	$ 709,683	$ 85,034	$ 343,169
F. Other			
Intragovernmental	$ 662	$ 0	$ 0
With the Public	1,043	0	0
Total Program Cost	$ 1,705	$ 0	$ 0
(Less: Earned Revenue)	(72)	0	0
Net Program Costs	$ 1,633	$ 0	$ 0
G. Total Program Costs			
Intragovernmental	$ 15,324,752	$ 882,726	$ 1,945,862
With the Public	59,762,403	1,916,854	3,556,780
Total Program Cost	$ 75,087,155	$ 2,799,580	$ 5,502,642
(Less: Earned Revenue)	(2,993,726)	(62,380)	(292,135)
Net Program Costs	$ 72,093,429	$ 2,737,200	$ 5,210,507
Net Costs of Operations	$ 72,093,429	$ 2,737,200	$ 5,210,507

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

See notes 1 and 19.

Combined Total	Intra-Entity Eliminations	Consolidated Total
$ 3,433,559	$ 35,765	$ 3,397,794
16,999,516	0	16,999,516
$ 20,433,075	$ 35,765	$ 20,397,310
(264,684)	(19,887)	(244,797)
$ 20,168,391	$ 15,878	$ 20,152,513
$ 13,662,226	$ 353,167	$ 13,309,059
19,540,254	0	19,540,254
$ 33,202,480	$ 353,167	$ 32,849,313
(2,338,583)	(366,226)	(1,972,357)
$ 30,863,897	$ (13,059)	$ 30,876,956
$ 720,672	$ 30	$ 720,642
13,086,014	0	13,086,014
$ 13,806,686	$ 30	$ 13,806,656
(162,385)	0	(162,385)
$ 13,644,301	$ 30	$ 13,644,271
$ 319,458	$ 222	$ 319,236
14,488,087	0	14,488,087
$ 14,807,545	$ 222	$ 14,807,323
(582,517)	(3,079)	(579,438)
$ 14,225,028	$ (2,857)	$ 14,227,885
$ 16,763	$ 8	$ 16,755
1,121,123	0	1,121,123
$ 1,137,886	$ 8	$ 1,137,878
0	0	0
$ 1,137,886	$ 8	$ 1,137,878
$ 662	$ 0	$ 662
1,043	0	1,043
$ 1,705	$ 0	$ 1,705
(72)	0	(72)
$ 1,633	$ 0	$ 1,633
$ 18,153,340	$ 389,192	$ 17,764,148
65,236,037	0	65,236,037
$ 83,389,377	$ 389,192	$ 83,000,185
(3,348,241)	(389,192)	(2,959,049)
$ 80,041,136	$ 0	$ 80,041,136
$ 80,041,136	$ 0	$ 80,041,136

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

See notes 1 and 19.

For the year ended September 30, 2000
($ in Thousands)

	Air Force Active	Air Force Reserve
Net Cost of Operations	$ 72,093,428	$ 2,737,200
Financing Sources (other than Exchange Revenues)		
Appropriations Used	75,296,728	2,671,939
Donations - Nonexchange Revenue	2,450	0
Imputed Financing (Note 20)	535,443	0
Transfers - in	75,431	0
Total Financing Sources (other than Exchange Revenues)	$ 75,910,052	$ 2,671,939
Net Results of Operations	$ 3,816,624	$ (65,261)
Prior Period Adjustments (Note 20)	(5,742,441)	142,049
Net Change in Cumulative Results of Operations	$ (1,925,817)	$ 76,788
Increase (Decrease) in Unexpended Appropriations	(731,775)	(30,442)
Change in Net Position	$ (2,657,592)	$ 46,346
Net Position-Beginning of the Period	65,998,616	902,861
Net Position-End of the Period	$ 63,341,024	$ 949,207

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

See notes 1 and 20.

Air National Guard	Consolidated Total
$ 5,210,507	$ 80,041,135
5,005,511	82,974,178
0	2,450
0	535,443
0	75,431
$ 5,005,511	$ 83,587,502
$ (204,996)	$ 3,546,367
134,351	(5,466,041)
$ (70,645)	$ (1,919,674)
147,567	(614,650)
$ 76,922	$ (2,534,324)
2,854,042	69,755,519
$ 2,930,964	$ 67,221,195

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

See notes 1 and 20.

For the year ended September 30, 2000
($ in Thousands)

	Air Force Active	Air Force Reserve
BUDGETARY RESOURCES		
Budget Authority	$ 75,822,587	$ 2,759,060
Unobligated Balance - Beginning of Period	6,959,336	155,865
Net Transfers Prior-Year Balance, Actual	253,055	(26,000)
Spending Authority from Offsetting Collections	4,688,608	63,702
Adjustments	(959,149)	(48,343)
Total Budgetary Resources	$ 86,764,437	$ 2,904,284
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$ 79,960,336	$ 2,799,797
Unobligated Balances - Available	6,096,915	23,498
Unobligated Balances - Not Available	707,186	80,989
Total, Status of Budgetary Resources	$ 86,764,437	$ 2,904,284
OUTLAYS		
Obligations Incurred	$ 79,960,336	$ 2,799,797
Less: Spending Authority from Offsetting Collections and Adjustments	(6,005,561)	(104,596)
Obligated Balance, Net - Beginning of Period	32,408,086	593,636
Less: Obligated Balance, Net - End of Period	(31,776,000)	(648,595)
Total Outlays	$ 74,586,861	$ 2,640,242

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

See notes 1 and 21.

Air National Guard	Combined Total
$ 5,166,374	$ 83,748,021
193,207	7,308,408
0	227,055
300,782	5,053,092
17,276	(990,216)
$ 5,677,639	$ 95,346,360
$ 5,481,174	$ 88,241,307
111,874	6,232,287
84,591	872,766
$ 5,677,639	$ 95,346,360
$ 5,481,174	$ 88,241,307
(397,871)	(6,508,028)
1,000,199	34,001,921
(986,166)	(33,410,761)
$ 5,097,336	$ 82,324,439

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

See notes 1 and 21.

For the year ended September 30, 2000
($ in Thousands)

	Air Force Active	Air Force Reserve
OBLIGATIONS AND NONBUDGETARY RESOURCES:		
Obligations Incurred	$ 79,960,336	$ 2,799,797
Less: Spending Authority from Offsetting Collections and Adjustments	(6,005,561)	(104,596)
Financing Imputed for Cost Subsidies	535,443	0
Transfers-In (Out)	75,431	0
Less: Exchange Revenue Not in the Entity's Budget	(406)	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	(72)	0
Total Obligations as Adjusted and Nonbudgetary Resources	$ 74,565,171	$ 2,695,201
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:		
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	$ 951,428	$ (23,168)
Change in Unfilled Customer Orders	(87,375)	53
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(8,197,308)	(34,385)
Financing Sources that Fund Costs of Prior Periods	7,691	(2,179)
Total Resources That Do Not Fund Net Costs of Operations	$ (7,325,564)	$ (59,679)
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES		
Depreciation and Amortization	$ 725,317	$ 16,629
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	1,600	0
Revaluation of Assets and Liabilities - Increases/(Decreases)	6,688,816	69,683
Loss on Disposition of Assets	20,162	0
Other - (Increases)/Decrease	(4,602,060)	(228)
Total Costs That Do Not Require Resources	$ 2,833,835	$ 86,084
FINANCING SOURCES YET TO BE PROVIDED	$ 1,976,372	$ 13,590
NET COST OF OPERATIONS	$ 72,049,814	$ 2,735,196

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

See notes 1 and 22.

Air National Guard	Combined Total
$ 5,481,174	$ 88,241,307
(397,871)	(6,508,028)
0	535,443
0	75,431
0	(406)
0	(72)
$ 5,083,303	$ 82,343,675
$ (76,907)	$ 851,353
(32)	(87,354)
(170,107)	(8,401,800)
55,298	60,810
$ (191,748)	$ (7,576,991)
$ 146,977	$ 888,923
0	1,600
195,406	6,953,905
0	20,162
466	(4,601,822)
$ 342,849	$ 3,262,768
$ 21,723	$ 2,011,685
$ 5,256,127	$ 80,041,137

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

See notes 1 and 22.

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

General Funds

Footnotes to the Principal Statements

Note 1—Significant Accounting Policies

A. Basis of Presentation

These financial statements report the financial position and results of operations of the Department of the Air Force, as required by the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act (GMRA) of 1994 and other relevant legislation. The financial statements were prepared from the books and records of the Air Force in accordance with Department of Defense Financial Management Regulation (DoDFMR) as adapted from Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements, and to the greatest extent possible, generally accepted accounting principles (GAAP). These statements are different from the financial reports also prepared by the Air Force pursuant to OMB directives that are used to monitor and control Department of Defense's (DoD's) use of budgetary resources.

The Air Force is unable to fully implement all elements of GAAP and the OMB Bulletin No. 97-01 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information from the Air Force's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than applying the current emphasis of business-like financial statements. As a result, the Air Force cannot currently implement every aspect of GAAP and the OMB Bulletin No. 97-01. The Air Force continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems.

There are other instances where the Air Force has reviewed the intent of the GAAP and applied it in a manner consistent with that intent, but the auditors interpret the GAAP differently. Financial statement elements impacted include financing payments under firm fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

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

B. 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 Air Force is to defend the United States through control and exploitation of air and space.

The accompanying financial statements account for all resources for which the Air Force is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

The audited financial statements are presented on the accrual basis of accounting (as required by DoD accounting policies) with the exception of the Gift and Cadet fund accounts and certain year-end cut-off procedures, which are immaterial. Financial statements and reports are prepared by the Defense Finance and Accounting Service (DFAS) Denver, Office of CFO Procedures and Reporting (DFAS-AAC/DE), based upon data provided by numerous financial reporting systems. Some of these systems are the General Accounting and Finance System (GAFS), Standard Base Supply System (SBSS), and major command-unique systems that feed into general funds. In addition, feeder data are supplied by the Air Force Academy Financial Management Office for the Cadet Fund and by DFAS Denver Directorate of Departmental Accounting (DFAS-AHA/DE) for the Gift Fund which is administered by them. Other entities, such as Army Corps of Engineers and Department of the Navy, also send data for consolidation.

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

The financial statements presented herein are prepared by the Defense Departmental Reporting System (DDRS) as fed by the CFO Reporting System using data from DOLARS, records summarized in the Air Force service-unique general ledger, and other external data. The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to decide how to use or is legally obligated to use to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

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

When possible, the financial statements are presented on the accrual basis of accounting as required by GAAP. For fiscal year (FY) 2000, the Air Force's financial management systems are unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the DoD systems into compliance with all elements of GAAP and OMB Bulletin No. 97-01.

The following is a list of Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted).

Air Force Account Number	Title
57 * 0704	Military Family Housing (O&M and Construction), Air Force
57 * 0810	Environmental Restoration, Air Force
57 * 1999	Unclassified Receipts and Expenditures, Air Force
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 * 3400	Operation and Maintenance (O&M), Air Force
57 * 3500	Military Personnel, Air Force
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), AF
57 * 3700	Personnel, Air Force Reserve
57 * 3730	Military Construction, Air Force Reserve
57 * 3740	Operation and Maintenance (O&M), Air Force Reserve
57 * 3830	Military Construction, Air National Guard
57 * 3840	Operation and Maintenance (O&M), Air National Guard
57 * 3850	Personnel, Air National Guard
57 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	Budget Clearing Accounts
57 * 6XXX (Non-entity)	Deposit Fund Accounts

C. Budgets and Budgetary Accounting

The Air Force's activities are financed by general, working capital (revolving), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the Air Force's missions. These notes describe the attributes of these funds.

General funds are used to record financial transactions arising under congressional appropriations. The Air Force manages 16 general fund accounts, consisting of seven funded by annual year appropriations and nine funded by multi-year appropriations.

Air Force working capital fund activities are covered in a separate set of audited financial statements and related footnotes.

Trust funds are used to record the receipt and expenditure of funds held in trust by the Government for use in carrying out specific purposes or programs in accordance with the terms of the donor trust agreement or statute. Trust accounts include funds collected through gifts and bequests (as well as interest earned on the investments of some of these gifts) and assets held for particular purposes. The Air Force maintains two trust fund accounts totaling $5.6 million in assets.

Special funds account for receipts of the government that are earmarked for a specific purpose. The Air Force manages one special fund account, the Wildlife Conservation Program, totaling $.5 million in assets. This special fund account had appropriations available of $.5 million.

Deposit funds are generally used to (1) hold assets for which the Air Force acts as agent or custodian or whose distribution awaits legal determination or (2) account for unidentified remittances. The Air Force expressly requires all check collections to pass under the immediate control of one of these deposit funds upon receipt, regardless of source, if the ultimate recipient is unknown. For FY 2000, the Air Force deposit fund accounts totaled $24.1 million in assets.

D. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. The effects of known intrafund transactions are eliminated.

The financial statements are presented in accordance with the accounting principles and reporting standards contained in the DODFMR, Volume 6B. There are, however, eight areas in which the accounting systems do not currently comply with existing GAAP. These areas include:

1. Chart of Accounts. Prior to and since being capitalized by DFAS, systems used to account for Air Force funds have not fully implemented the U.S. standard general ledger (GFGL) chart of accounts. DoD directives require a general ledger system be established using the U.S. standard general ledger chart of accounts to provide primary internal management information. This deficiency is disclosed in DFAS Denver Financial Management 5-Year Plan, Volume 2.
2. General Ledger. Prior to and since being capitalized by DFAS, systems used to account for Air Force funds have not been implemented to reflect a true transaction-driven general ledger system to provide a consolidated source of financial management information for either management or financial statement purposes. To account for its resources, the Air Force utilizes an extensive number of feeder systems to control and report the status of resources. Many of these systems are outside the accounting and finance network controlled by DFAS (i.e., budget, supply and property systems) and the general ledger accounting process. This

deficiency is included in DFAS Denver Financial Management 5-Year Plan, Volume 2. DFAS has initiated a project to integrate and modernize DFAS accounting systems into a comprehensive management system. The overall goal is to bring financial data for both general funds and working capital funds under general ledger control complying with General Accounting Office (GAO) and OMB mandates. The general ledger system will be transaction-driven and utilize the U.S. standard general ledger chart of accounts.

3. Government Furnished Material (GFM), Government Furnished Property (GFP) and Contractor Acquired Material (CAM) and Contractor Acquired Property (CAP) have all been identified as a reporting weakness.
4. Inventory/Equipment. The Air Force uses different valuation methods for the various categories of materials contained in the Air Force inventory. Materials inventory items accounted for in logistics systems are valued at latest acquisition cost (LAC). Generally, latest acquisition costs are based on prices paid for recently acquired items plus surcharges for handling, distributing, and other costs so latest acquisition costs are typically higher than historical cost. Real property installed equipment is valued at cost and is included as part of the real property facility cost basis.
5. Canceled-year appropriation balances for receivables and payables are not reliable.
6. Although the Air Force has made progress in using the consumption method to recognize certain expenses, more work remains to be done.
7. The Air Force does not recognize holding gains and losses related to inventory revaluation, which occurs when latest acquisition costs are used.
8. In all cases, the Air Force does not report gains and losses on disposal of general property, plant and equipment. As systems are updated, gains and losses are being implemented.

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

E. Revenues and Other Financing Sources

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

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

- ✦ The Air Force conducts and contracts for RDT&E of advanced weapon systems which are normally expensed. The RDT&E programs support modernization of weapon systems through military research, exploratory development, and the development and testing of prototypes and full-scale pre-production of hardware.
- ✦ Investment (procurement) and construction accounts are used for specific purposes which are approved by and reportable to Congress. These accounts are used for the acquisition or construction of technology, property, and infrastructures.

Revenue and expenses were reduced by $395 million, advances and unearned revenue were reduced by $125 million, and receivables and payables were offset by $1.517 billion as a result of eliminating intra-Air Force program transactions.

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

- ✦ The Air Force Gift Fund is an endowment fund where donors make conditional monetary gifts to the Air Force. Donations to the Air Force are recognized as a financial source upon acceptance of the donated asset, and revenue is recorded for the value of the increase to the asset account. Obligations and expenditures are made against the Gift Fund for the purposes specified in the gift offer. The use or obligation of Gift Fund receipts is recorded on a cash basis versus an accrual basis of accounting. When specified in the gift offer, these funds are allowed to be invested in marketable securities. Donated property is disclosed in the financial statements. Trust fund revenue of $2.5 million includes donations of $2.45 million and interest earned of $72.1 thousand to the Gift Fund.
- ✦ The Air Force Cadet Fund operates as a local deposit fund account. It is administered by the Superintendent of the Air Force Academy on behalf of the Academy cadets. Each month, moneys are deposited into the account from checks and information provided by the Defense Joint Military Pay System (DJMS). The cadet pay office draws checks on this account to pay the various vendors and contractors at the Academy. The advance education funds, which previously were processed through the Cadet Fund, are now paid directly from the Military Personnel Appropriation (3500), and a repayment of indebtedness is established on the cadet Master Military Pay Account (MMPA) in DJMS.

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

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

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

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

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

Medical Funding: Funding for all components in DoD is accomplished through the Defense Health Program appropriation.

F. Accounting for Intragovernmental Activities

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

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

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

The Air Force civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). Military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Air Force funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Air Force recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost and recognizes corresponding imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position. The OPM reports pension benefits and liabilities for CSRS, FERS, and Thrift Saving Plan (TSP), and DoD reports for MRS.

The DoD reports the assets, funded actuarial liability, and unfunded actuarial liability of the military personnel in the Military Retirement Fund (MRF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. However, the Air Force, as well as the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For FYs 1999 and 2000, the Air Force provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated. In addition, the Air Force implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's Intragovernmental Fiduciary Transactions Accounting Guide for reconciling intragovernmental transactions pertaining to investments in federal securities, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

Each year, the DoD components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the Air Force was reimbursed for the cost of administering and executing the sales.

Prior to FY 2000, sales to the foreign military sales trust fund were considered intragovernmental for statement presentation and eliminating entry purposes. Beginning with FY 2000, these transactions are now treated as nonfederal. This change reclassified approximately $170 million in accounts receivable; $450 million in revenue and cost of sales; and $20 million in advances received for the FY 2000 statements.

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

The Air Force's financial resources are maintained in U.S. Treasury accounts. The cash receipts and disbursements are processed by the DFAS disbursing offices, the U.S. disbursing offices at the Department of State's financial service centers as well as the Department of the Treasury and the Federal Reserve. The balance with the U.S. Treasury represents the aggregate of all unexpended balances. Material disclosures are provided at note 3.

As agents of the U.S. Treasury Department, disbursing officers (DOs) maintain monthly Standard Form (SF) 1219, Statement of Accountability, that portrays their cash accountability to the Treasury. The majority of DO's cash accountability is actual operating or accommodation or exchange "cash" either acquired by Treasury check issue or by collection from customers. However, portions of the total FY 2000 cash accountability shown on a disbursing officer's Statement of Accountability, SF 1219, include advances to the Massachusetts Institute of Technology and other institutions of higher education under advance payment pool agreements. These advances do not represent Air Force funds and are reported as Non-Entity Assets, Other. The amount of total DO cash accountability included in the FY 2000 statement as a liability to Treasury is $359.3 million (including advances to contractors).

H. Foreign Currency

The Air Force conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military construction, family housing operation and maintenance, family housing construction and military personnel). The gains and losses are computed 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 adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at note 7.

I. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable include accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts are based upon analysis of collection experience by fund type. The Air Force does not recognize an allowance for estimated uncollectible amounts from another federal agency. Claims against another federal agency are to be resolved between the agencies. Material disclosures are provided at note 5.

J. Loans Receivable

Not Applicable.

K. Inventories and Related Property

The Air Force reports all OM&S at latest acquisition cost (LAC). The LAC method is used because OM&S data is maintained in logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, Accounting for Inventory and Related Property. When an acquisition is made at LAC for OM&S, no gains or losses are recognized in the net cost statement.

The related property portion of the amount reported on the Inventory and Related Property line includes only OM&S (Held for Use, Held in Reserve for Future Use, Excess, Unserviceable and Obsolete). OM&S, consisting of ammunition and supply consumables, are reported at LAC except for items considered to be excess or obsolete. These OM&S items have been marked down to their Net Realizable Value. Material disclosures are provided at note 9.

L. Investments in U.S. Treasury Securities

The Air Force Gift Fund was established to control and account for the disbursement and use of moneys donated to the Air Force and the receipt of interest or dividends arising from investment of such donations. The Gift Fund accepts certain gifts offered by the public. Among these are monetary gifts, which are accounted for by DFAS Denver. The amount of investments represents federal securities controlled by DFAS Denver. Related earnings are allocated to appropriate Air Force activities to be used in accordance with the directions of the donor. The intent is to hold investments to maturity unless they are needed to finance purchases in accordance with the donor's intent. As of September 30, 2000, $1.3 million of investments at cost (par value less unamortized discount and premium) in U.S. securities were included in the Gift Fund. Material disclosures are provided at note 4.

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

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD the capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis, based on a prescribed recovery period. General PP&E land is not depreciated.

Most Air Force general PP&E assets are valued at historical acquisition cost. When records are not available to support the original acquisition cost of general PP&E, either the LAC or estimates are used. If estimates are used, they are based on either (1) the cost of similar assets at the time of acquisition or (2) current cost of similar assets discounted for inflation since the time of acquisition. If the original acquisition costs are not known for a significant amount of assets in a major class of General PP&E, the notes to the principal statements disclose the method of valuation and the reason for its use.

Valuations for equipment as reported in the Air Force Equipment Management System (AFEMS), the Information Processing Management System, and the Medical Logistic System are based on actual historical cost. The Air Force has three minor systems that still report equipment based on LAC. These systems include the Financial Inventory Accounting and Billing System (FIABS), the Requirements Data Bank (RDB), and an Aerospace Maintenance and Regeneration Center (AMARC) system. The data from these systems will eventually be incorporated into the Air Force AFEMS.

Multi-use heritage assets are treated as general PP&E for reporting and accounting purposes. Therefore, the acquisition costs of multi-use heritage assets and any capitalized renovations or improvements shall be reported on the balance sheet and depreciated. Multi-use heritage assets are also reported in the Required Supplementary Stewardship Information section as heritage assets. Multi-use heritage assets are used predominantly for government operations (e.g., the Pentagon).

Land and facilities, in most cases, are valued at actual cost. Buildings are capitalized when placed in service (constructed) or at the date of acquisition. Improvements to land and buildings are capitalized if they meet or exceed the capitalization criteria of $100,000 or more and have or increase the useful life two or more years. In FY 2000, the Air National Guard real property was implemented into the Automated Civil Engineering System (ACES). This system captures costs for each project by work order number, by appropriation, updates the construction in progress account, and capitalizes and depreciates all General assets for both the general fund and each working capital fund. The system also identifies preponderant user for reporting of each asset.

Prior audits of financial statements had shown that documentation to support the recorded acquisition cost of many older properties was no longer available. The DoD, as part of the implementing strategy efforts, contracted to evaluate the accuracy of the values reported in ACES (real property). The results of this effort showed that valuations for all real property was within acceptable tolerance levels. The GAO is now in the process of validating the contract results. In addition, the DoD currently has an ongoing contract to validate the existence and completeness of data reported in AFEMS. When records are not available to support the original acquisition cost or value of property, the notes to the principal statements will disclose the method of valuation and the reason for its use. Material disclosures are provided at note 10.

Routine maintenance and repair costs for all general PP&E assets are expensed when incurred.

Capitalization of Assets: General PP&E are depreciated in accordance with DoD financial management policy, which is consistent with the Federal accounting standards. This guidance required the capitalization of all assets with a useful life of two or more years and an acquisition cost of $100,000 or more. When historical costs are not available, the fair market value of the asset is used on the capitalizable amount. The various criteria used to establish the fair market value are:

1. Cash realized in transactions involving the same or similar assets,
2. Quoted market prices,
3. Fair market value of other assets or services received in exchange of property, or
4. Independent appraisals.

When it is in the best interest of the government, the Air Force provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the Air Force, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the Air Force Balance Sheet. The DoD recently completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the DoD financial statements. Regardless, the DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Air Force currently reports only government property in the possession of contractors that is maintained in the Air Force property systems.

To bring the Air Force into compliance with federal accounting standards, DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in property systems, information on all property furnished to contractors. This action is structured to capture and report the information necessary for compliance with federal accounting standards.

N. Advance and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases

Generally, lease payments are for the rental of equipment, space, and operating facilities and 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 DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease terms.

P. Other Assets

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost. In order to alleviate the potential burden on the contractor that these long-term contracts can cause, the Air Force often provides financing payments. One type of financing payment that the Air Force makes is based on the percentage of completion. In accordance with SFFAS No. 1, these payments are reported as work in process and are not reported as advances or prepayments in the "Other Assets" line item. However, the Air Force has reported progress payments provided to contractors under the terms of fixed price contracts as an advance or prepayment in the “Other Assets” line item. While our auditors do not agree with this presentation because SFFAS No. 1 does not address this type of financing payment, the Air Force treats these payments as advances because the Air Force becomes liable only after the contractor delivers the good in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for their costs, and the contractor is liable to repay the Air Force for the full amounts of the advance.

Q. Contingencies and Other Liabilities

The SFFAS No. 5, Accounting for Liabilities of the Federal Government, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Air Force. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss 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 that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Air Force loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Air Force assets. This type of liability has two components: nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, Accounting for Property, Plant, and Equipment. Based upon the Air Force policies and consistent with SFFAS No. 5, Accounting for Liabilities of Federal Government, a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The DoD’s auditors disagree with this application of the standard for nonenvironmental disposal liabilities based on their interpretation that the disposal liability recognition should commence at the time the asset is placed in service. The issue raised by the auditors is one that has government-wide implications for all federal agencies. Until the issue is resolved on a government-wide basis, the Department has agreed to adhere to the explicit literal provisions of the SFFAS No. 5. The Department has agreed to the recognition of nonenvironmental disposal liability for National Defense PP&E nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily separately identifiable from environmental disposal costs. Material disclosures are provided at notes 14 and 15.

The Air Force liabilities also arise as a result of range preservation and management activities. Range preservation and management activities are those precautions considered necessary to protect personnel and to maintain long-term range viability. These activities may include the removal and disposal of solid wastes, clearance of unexploded munition, and efforts considered necessary to address pollutants and contaminants. The reported amounts for range preservation and management represent the current cost basis estimates of required range preservation and management activities, beyond recurring operating and maintenance, for active and inactive ranges at active installations. The estimated costs are recognized systematically based on the estimated use of physical capacity.

R. Accrued Leave

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

S. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, as well as amounts obligated for which neither legal liabilities for payments have been incurred nor actual payments made.

Cumulative results of operations represent the difference, since inception of the activity, between expenses and losses and financing sources including appropriations, revenue, and gains. Beginning in FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or a separate negative amount shown for future funding requirements.

T. Treaties for Use of Foreign Bases

The Air Force has the use of land, buildings, and other facilities which are located overseas and were obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Air Force continued use of these properties until the treaties expire. Investments in buildings, runways, aircraft shelters, and other facilities located on the overseas bases are capitalized. As of September 30, 2000, the Air Force had not finalized the cost values of buildings and facilities located in foreign countries. These fixed assets are subject to loss in the event the treaties are not renewed or other agreements are not reached which allow for continued use by the Air Force. In the event these treaties or agreements are terminated, losses will be recorded for the value of non-retrievable capital assets.

U. Comparative Data

The OMB has waived the requirement to present comparative financial statements for FY 2000.

V. Undelivered Orders

The Air Force was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to $31.6 billion at fiscal year end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

Note 2—Nonentity Assets

As of September 30, 2000

(Amounts in thousands)

1. Intragovernmental Nonentity Assets:		
A. Fund Balance with Treasury	$	24,839
B. Accounts Receivable		28,046
C. Total Intragovernmental Nonentity Assets	$	52,885
2. Nonfederal Nonentity Assets:		
A. Cash and Other Monetary Assets	$	64,982
B. Accounts Receivable		281,217
C. Other Assets		111,712
D. Total Nonfederal Nonentity Assets	$	457,911
3. Total Nonentity Assets	$	510,796
4. Total Entity Assets		85,682,127
5. Total Assets	$	86,192,923

6. Other Information: As disclosed in note 1.D.5., canceled accounts receivable balances are not reliable.

The amount of $111.7 million on Line 2.C. represents advances to contractors as reported on SF 1219, Statement of Accountability. This amount is being reported for payments as part of an advance-payment pool agreement made with the Massachusetts Institute of Technology and other non-profit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with non-profit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.

Note 3—Fund Balance with Treasury

As of September 30, 2000

(Amounts in thousands)

1. Fund Balances:		
A. Appropriated Funds	$	40,514,556
B. Trust Funds		2,675
C. Other Fund Types		24,091
D. Total Fund Balances	$	40,541,322
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$	40,539,373
B. Fund Balance per Air Force Records		40,541,322
C. Reconciling Amount	$	(1,949)

3. Explanation of Reconciliation Amount: The FY 2000 reconciling amount is due to an error made at Treasury during September 2000 reporting. This amount was dropped from the extended availability appropriation for the B-2 aircraft. The entity records are correct and Treasury records will be corrected in FY 2001.

4. Other Information Related to Fund Balance with Treasury: The Fund Balance with Treasury (FBWT) does not include any amounts for which the Department of Treasury is willing to accept corrections to canceled appropriations, in accordance with SFFAS 1.

The FBWT in appropriations that were canceling on September 30, 2000, was withdrawn in accordance with Treasury policy. This amount was $1.7 billion for FY 2000.

The OPAC differences represent amounts reported by an organization but not reported by its trading partners. As of September 30, 2000 and 1999, there were zero and ($2.3 million), respectively, of OPAC differences greater than 180 days old. A majority of the differences represent internal DoD transactions and, therefore, do not affect the FBWT at the DoD Consolidated level. However, for individual entity level statements, these differences would affect the amount reported for FBWT. The DoD is working with the DFAS Centers, Treasury, and Treasury's contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2000. These actions aided the Air Force in clearing all of the old balances and establishing better internal controls over the OPAC process.

DFAS is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Treasury will not assist in research efforts for transactions over 1 year old; or (3) corrections were processed for transactions that Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Air Force and the Treasury for processing checks. Further, no empirical evidence has been presented that demonstrates check issue discrepancies adversely affect the FBWT.

Note 4—Investments

As of September 30, 2000

(Amounts in thousands)	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net
1. Intragovernmental Securities:				
Non-Marketable, Market-Based	$ 1,290	Interest	$ (3)	$ 1,287
Accrued Interest	$ 16			$ 16
Total Intragovernmental Securities	$ 1,306		$ (3)	$ 1,303

2. Other Information: See note 1.L. for other information on investments.

Note 5—Accounts Receivable

As of September 30, 2000

(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables:	$ 284,642	N/A	$ 284,642
2. Nonfederal Receivables (From the Public):	$ 746,737	$ (240,509)	$ 506,228
3. Total Accounts Receivable:	$ 1,031,379	$ (240,509)	$ 790,870

4. Allowance method: The total allowance is determined at the departmental level. These departmental level amounts are derived as follows: For closed years receivables an arbitrary allowance rate of 50 percent results in an estimated allowance of $231.4 million. Interest allowance of $3.6 million is calculated using an average percent of write-offs to outstanding public accounts receivable over a five-year period. Closed year receivables and interest are payable to the Treasury when collected. For entity receivables, the allowance is computed each year based on the average percent of write-offs to outstanding public accounts receivable for the last five years and results in an estimated allowance of $5.5 million.

5. Other information: As presented on the Consolidated Balance Sheet, accounts receivable include reimbursement receivables and refund receivables such as out-of-service debts (amounts owed by former service members), contractor debt, and unused travel tickets. It also includes net interest receivable per DoD FMR Vol. 6B guidance. Canceled accounts receivable are reported as non-entity receivables because these amounts are deposited into a Treasury miscellaneous receipt account when collected. A reconciliation between Report on Receivables Due from the Public and the Balance Sheet was accomplished. Guidance was issued by DFAS Arlington to reclassify Foreign Military Sales Trust Fund receivables as public rather than government. This results in a $170.4 million increase in open and closed year public receivables that were not included in the Report on Receivables Due From the Public. Another difference between the Balance Sheet and Report on Receivables Due From the Public (line 7) is $122.9 million and $13.2 million for entity and non-entity receivables, respectively. These differences relate to undistributed collections that are prorated between public and intragovernmental receivables on the balance sheet at fiscal year-end. Also, a $4.6 million net difference was due to closed years refund receivables, reimbursement receivables and adjustments not reported on the Receivable Report. Gross interest receivables, non-entity, public was $44.7 million with an allowance for estimated uncollectibles of $3.6 million, resulting in a net of $41.1 million.

The Air Force accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental accounts receivable balances with its trading partners. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Note 6—Other Assets

As of September 30, 2000

(Amounts in thousands)

1. Intragovernmental Other Assets:		
A. Advances and Prepayment	$	100,293
B. Other Assets		85,000
C. Total Intragovernmental Other Assets	$	185,293
2. Nonfederal Other Assets:		
A. Outstanding Contract Financing Payments	$	4,664,816
B. Other Assets (With the Public)		137,793
C. Total Nonfederal Other Assets	$	4,802,609
3. Total Other Assets:	$	4,987,902

4. Other Information Related to Other Assets: The amount on Line 1.B. of $85 million represents an other asset resulting from the processing of progress billings received from US Transportation Command. This is the first year such an asset has been reported.

The amount of $4.7 billion on Line 2.A. for FY 2000 represents outstanding financing payments for fixed price contracts reported as other assets. (Closed and canceled accounts data were unreliable and not included.) Of the $4.7 billion, $77.4 million are for capitalizable equipment, the rest is for national defense items such as airplanes and missiles. These outstanding national defense items finance payments are reported as an asset until delivered, at which point they are expensed. This is the first year these outstanding national defense item finance payments have been reported as an asset pending expensing at delivery. Under the terms of the fixed price contracts, the Air Force becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Air Force is not obligated to reimburse the contractor for its cost, and the contractor is liable to repay the Air Force for the full amount of the advance. The Air Force does not believe that SFFAS No.1, Accounting for Selected Assets and Liabilities, addresses this type of financing payments. The auditors disagree with the Air Force's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of finance payment.

The amount of $137.8 million on Line 2.B. is composed of $137.4 million in advances to contractors and suppliers ($25.7 million entity and $111.7 million non-entity), and $.4 million for pending sale of timber assets. The amounts in Line 2.B. will fluctuate from year to year depending on the timing and/or quantity of advances, recoveries of advances and deliveries and changes in timber sale activities.

Intragovernmental advances from the Foreign Military Trust Fund of $20 million were reclassified to nonfederal. See note 1.F for additional disclosures.

Note 7—Cash and Other Monetary Assets

As of September 30, 2000
(Amounts in thousands)

Cash	$	56,562
Foreign Currency		8,420
Total Cash, Foreign Currency, & Other Monetary Assets	$	64,982

Other Information Pertaining to Entity Cash & Other Monetary Assets: The non-entity assets shown consist of cash reported on disbursing officers' SF 1219, Statement of Accountability. The amount of $56.6 million represents undeposited collections of $.4 million and DO Cash of $56.2 million. The Disbursing Officers Cash does not include $182 million in undeposited collections reported to DFAS-DE on the SF 1219. This amount represents deposits from foreign governments to the FMS Trust Fund.

Note 8—Direct Loans and Loan Guarantees

Not Applicable.

Note 9—Operating Materials and Supplies, Net

As of September 30, 2000

(Amounts in thousands)	OM&S Amount	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories:				
A. Held for Use	$ 17,536,050	$ 0	$ 17,536,050	O
B. Held in Reserve for Future Use	1,689,471	0	1,689,471	O
C. Excess, Obsolete, and Unserviceable	44,267	0	44,267	NRV
D. Total	$ 19,269,788	$ 0	$ 19,269,788	

Legend for Valuation Methods

NRV = Net Realizable Value   O = Other

2. Restrictions on Operating Materials and Supplies

3. Definitions of Titles: OM&S Amount represents the standard value used for OM&S transactions in the financial system. Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S, Net is approximate historical cost or net realizable value.

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

The Air Force attempts to use the consumption method of accounting for OM&S (acquisitions, deletions). As stated above, current financial and logistics systems cannot fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchases method). The Department has reached an agreement with the OMB, the GAO, and the Department of Defense Inspector General (DoDIG) to move to the consumption method of accounting for OM&S in future years. Based on this agreement, the Air Force studied the methods to report historical costs and has determined that moving average cost (MAC) will be used to value the OM&S. Currently, a study is in process to determine which system will be used to do consumption accounting. It is anticipated that the study and implementation will take approximately two years.

In FY 2000, the Air Force used the LAC valuation method without the computation of unrealized holding gains and/or losses due to price changes since acquisition. The SFFAS No. 3 requires that the consumption method of accounting be applied for the recognition of expenses for OM&S. However, this standard is not followed because the various computer systems (SBSS, FIABS, Combat Ammunition System, Standard Depot System and various other systems involving contractors and manually maintained accounts) used to report data were designed as inventory systems rather than accounting systems. Therefore, the OM&S expense (as reflected on the Statement of Net Cost) is understated. This may or may not be material.

The value of the Air Force GFM and CAM in the hands of contractors is generally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information.

The Air Force, in FY 2000, used a refined definition for determining what constituted a tactical missile all-up-round. As a result, trainers, drones, and dummies, were removed form the National Defense PP&E (tactical missiles) Required Supplementary Stewardship Information Report. This resulted in these items being added to the OM&S line item as a prior period adjustment totaling $192 million.

War reserve materials, as identified by the logistics community, are reported as OM&S held in reserve for future use. This includes a portion of munitions being reported by the Combat Ammunition System, as well as other assets as reported by the SBSS.

Excess, Obsolete, and Unserviceable OM&S (excluding repairables) have been revalued from standard price to their net realizable value (NRV). Based on current policies and procedures, it has been determined that the NRV is 1.8 percent of acquisition cost. Therefore, the reported value of Excess, Obsolete and Unserviceable OM&S was reduced by $2.4 billion.

In FY 2000, OM&S are being reported for the first time by two private companies that have contracted with the Air Force to manage and report all OM&S for the C-17 and the C-130J aircraft. In FY 1998, $195 million of OM&S (aircraft engine spare parts) were acquired from the working capital funds. Since it was not picked up in the general funds until this year, this required a prior period adjustment. The remainder of the OM&S obtained from private sources, the Defense Logistics Agency, and the working capital funds are reported as an increase to the general funds totaling $1.3 billion.

The Air Force, in FY 2000, is reporting data from eight manually maintained accounts and the U-2 program that had not been previously reported. The increase to OM&S will be treated as a prior period adjustment totaling $1.5 billion. The data from five of these accounts have been rounded to the nearest one thousand dollars, and in some cases to the nearest $100 thousand, thereby either understating or overstating the actual inventory values. The manually maintained accounts are considered supply accounts other than standard supply. The Air Force is in the process of reviewing all of these supply accounts to determine if they are still warranted. If no longer warranted, they will be returned to the standard supply systems. Where the accounts are still warranted, the Air Force will work with these supply account managers to provide actual historical cost data, acquisitions, and disbursements (consumption accounting) for FY 2001 and beyond.

Classified data pertaining to OM&S has not been included in the financial statements. The Air Force will study the best approach to be taken to include this data in the financial statements in FY 2001.

In FY 2000, OM&S held for repair is included in OM&S held for use. This will be changed and reported separately for FY 2001.

OM&S reported for FY 2000 includes $7.6 billion in munitions. Of that amount, $7.3 billion is included as held for use, $304 million as held for future use, and $2.2 billion reduced to a NRV of $40 million as excess, obsolete and unserviceable.

Note 10—General PP&E, Net

As of September 30, 2000 (Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes:					
A. Land	N/A	N/A	$ 284,595	N/A	$ 284,595
B. Buildings, Structures, Facilities	SL	20-40	36,800,437	(21,905,623)	14,894,814
C. Equipment	SL	5-10	8,134,259	$ (5,276,522)	2,857,737
D. Assets Under Capital Lease	SL	20	306,423	(121,633)	184,790
E. Construction-in-Progress [1]	N/A	N/A	2,314,820	N/A	2,314,820
F. Total General PP&E			$ 47,840,534	$ (27,303,778)	$ 20,536,756

[1] Note 15.B for additional information on Capital Leases

Legend for Depreciation/Amortization Methods

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

2. Other Information: The value of the Air Force General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land, Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software, and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book value of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the OMB, the GAO and the DoDIG, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

Assets at closed base realignment and closure locations are not included in the PP&E amounts reflected on the financial statements. These assets have been considered excess with no further operational value to the Air Force. The losses from the disposition of these assets have been reported on the statement of financing as required.

The Air Force records all real property projects as construction in progress (CIP) in ACES regardless of estimated cost. If the full cost of the project does not meet or exceed the DoD capitalization threshold, the CIP is expensed. Therefore, the CIP account as reported may be overstated. The Air Force does not believe the overstatement is material.

The Air Force, in FY 2000, capitalized and depreciated most personal property using the depreciation module in the AFEMS. AFEMS is designed to segregate National Defense from General equipment, then for General equipment to capture the historical cost, date of acquisition, date placed in service, based on identified user (general fund, working capital fund, or other DoD activities) and then to depreciate the various types of equipment according to current DoD depreciation policies and procedures. As part of the load process, the Air Force logistics and property management communities were requested to do a complete review of all equipment as listed on the Customer Account/ Customer Receipt List that met the capitalization criteria and had not been loaded properly in AFEMS. As of September 30, 2000, an estimated $662 million of Air Force equipment (not fully depreciated) still had not been populated with the historical cost and/or acquisition date. To assure that this data was included in the financial statements, the Air Force used the standard price for each item and estimated the date of acquisition to provide a basis for manually depreciating and reporting of these assets. This same load issue was reported in the FY 1999 financial statements. Although, some progress has been made to resolve these load issues (FY 1999 $895 million, FY 2000 $662 million) the problem still continues. The DoD has contracted with a private firm to validate all data and the methodology used to populate AFEMS. This contract as of September 30, 2000 is ongoing. In addition, $14 million of equipment purchased in FY 2000 did not pass the AFEMS/SBSS edit checks, but met the capitalization criteria, and was added to the equipment account and depreciated manually.

The Air Force reported $495 million in Special Tools and Special Test Equipment (ST/STE) on the financial statements from two different systems (AMARC and Requirements Data Bank-D200J). The acquisition cost data and date placed in service for these assets in these two systems is suspect in some cases or could not be determined. These suspect values were used either due to unavailable historical cost data or the inability of the system to report the full cost (value over $10 million). In addition, since the date placed in service was not available, the Air Force used the “date aircraft were delivered” as the date the ST/STE was placed in service. The date may or may not be the actual date the ST/STE was fabricated and placed in service. Using incorrect acquisition dates may result in an overstatement or understatement of the depreciation expense for the year. The ST/STE in the Air Force systems, except for ST/STE pertaining to the B-2 aircraft, appear to be fully depreciated. Depreciation for ST/STE from these two systems was computed manually using a straight-line method, with zero residual or scrap value and useful life of 10 years.

The Air Force, in FY 2000, made a prior period adjustment to the FY 1999 ending balance to capture approximately $896,000 in medical equipment that had not been previously reported. The missing data was the result of using March 31, 1999, data from five of the 89 sites that had medical equipment. In addition, a prior period adjustment was also made to the accumulated depreciation account. The depreciation module used by the medical logistics community to compute depreciation was designed by a private contractor based on current DoD policies/procedures and DFAS reporting requirements.

The Air Force, in FY 2000, reported $3 million of personal property with other government agencies, civil agencies, and individuals on a temporary loan basis that could not be depreciated. The assets on temporary loan are retained in the FIABS, which does not capture historical cost, date of acquisition, or date placed in service. Consequently, depreciation cannot be accomplished either systemically or manually with any degree of accuracy. Although the dollar value is immaterial, it was included as part of the equipment account balance for full disclosure.

In FY 2000, the Air Force used the Information Processing Management System (IPMS) to capture, report, and depreciate all Automated Data Processing Equipment (ADPE). During FY 1999, the Air Force used capitalization data from this system, but contractors computed the depreciation manually. Due to a change in definition of what constitutes ADP equipment, a prior period adjustment restated the beginning balance by $2.2 million. As a result of the restatement, the accumulated depreciation also had to be restated for these equipment items.

Reporting for internal use software under SFFAS No. 10 is effective for the FY 2001 financial statements. The Standard defines "internal use software" as software that is purchased from commercial vendors "off the shelf," internally developed, or contractor developed solely to meet the entity's internal or operational needs. The Air Force has two central design activities (CDAs) which develop or contract for internal use software. Both CDAs submitted the total amount of the support services they provided to the Air Force, to accurately segregate these amounts into capitalized and expensed amounts. The Air Force has engaged a contractor to review available data sources and develop a data collection process for internally developed software with sufficient auditability that can be repeated in future years.

Note 10.A—Assets Under Capital Lease

As of September 30, 2000

(Amounts in thousands)

1. Entity as Lessee, Assets Under Capital Lease:		
Land and Buildings	$	306,423
Accumulated Amortization		(121,633)
Total Capital Leases	$	184,790

2. Other Information: The Air Force currently has one capital lease under litigation. The liability amount for FY 2000 could not be determined and may potentially represent liabilities in future years.

Note 11—Liabilities Not Covered by Budgetary Resources

As of September 30, 2000

(Amounts in thousands)

1. Intragovernmental Liabilities:		
A. Debt		109
B. Other		826,963
C. Total Intragovernmental Liabilities	$	827,072
2. Nonfederal Liabilities:		
A. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities		1,123,249
B. Environmental Liabilities		7,871,245
C. Other Liabilities		2,823,560
D. Total Nonfederal Liabilities	$	11,818,054
3. Total Liabilities Not Covered by Budgetary Resources:	$	12,645,126
4. Total Liabilities Covered by Budgetary Resources:		6,326,603
5. Total Liabilities:	$	18,971,729

6. Other Information: Line 1.B. consists of $149.9 million in accounts payable from canceled appropriations, judgement fund liabilities of $360.4 million, workman's compensation reimbursement liability of $288.6 million and unemployment compensation liability of $28 million.

Line 2.C. consists of $1.751 billion in accrued annual leave liabilities for military and civilians, $656.0 million in contingent liabilities, $235.1 million in capital lease liabilities (current of $13.1 million and non-current of $222 million), $181.3 million in accounts payable canceled appropriations and $.5 million in accrued interest liability.

Note 12—Accounts Payable

As of September 30, 2000 (Amounts in thousands)	Accounts Payable	Total
1. Intragovernmental:	$ 997,903	$ 997,903
2. With the Public:	4,174,733	4,174,733
3. Total	$ 5,172,636	$ 5,172,636

4. Other Information: For the majority of buyer-side transactions, the Air Force feeder and DFAS accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Air Force was unable to reconcile intragovernmental accounts payable balances with its trading partners. Reconciliation with the OPM and the Department of Labor (DOL) is currently ongoing. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The intragovernmental Interest, Penalties, and Administrative Fees results from payments made out of the DoD Education Benefits Fund. Payments to Post-Vietnam Era Voluntary and Involuntary Separatees are made in advance of contributions from the services. The DoD Board of Actuaries has determined that the services must pay the accumulated interest on this unfunded liability.

Note 13—Debt

As of September 30, 2000 (Amounts in thousands)	Beginning Balance	Ending Balance
Agency Debt:		
Debt to Other Federal Agencies	109	109
Classification of Debt:		
Intragovernmental Debt	$ 109	$ 109

Note 14—Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities

As of September 30, 2000

(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Environmental Liabilities:			
Nonfederal:			
1. Accrued Environmental Restoration (Cleanup) Costs:			
a. Active Installations Defense Environmental Restoration Program Funds	$ 376,300	$ 4,467,734	$ 4,844,034
b. Active Installation—Other Funds	0	175,519	175,519
c. Base Realignment and Closure Installations	236,561	1,626,618	1,863,179
d. Closed, Transferred and Transferring Ranges	0	829,400	829,400
2. Other Environmental Disposal Liabilities:			
a. Other National Defense Weapons Systems	0	3,121	3,121
3. Total Environmental Liabilities	$ 612,861	$ 7,102,392	$ 7,715,253

4. Other Information Related to Environmental Liabilities: For FY 2000, the Air Force estimated and reported environmental restoration liabilities at active installations totaling $5.02 billion as of September 30, 2000. These restoration liabilities are comprised of the following: $376.3 million in current Defense Environmental Restoration Program (DERP) liabilities, $4.47 billion in DERP non-current liabilities, and $175.5 million non-current non-DERP liabilities. For FY 2000, $30,000.00 of Unexploded Ordnance (UXO) (Current portion from FY1999 estimated Training Range liability) is now considered retired.

For FY 2000, the Air Force has estimated and reported its BRAC environmental future liabilities. The Air Force Base Conversion Agency (AFBCA) estimates a $1.863 billion cost to complete liability as of 30 September 2000. This amount includes all cleanup requirements to meet regulatory requirements and to transfer property. However, this amount does not include potential future cost associated with the long-term landfill management for which the Air Force may never be absolved of responsibility due to State laws. Pending final DoD and Air Force guidance, a better description of these potential future costs will be available for the FY 2001 report.

The FY 2000 environmental disposal liability of $3.1 million in Other National Defense Weapon Systems includes strategic, tactical, active, inactive missiles and motors. The Air Force indicates they do not plan to dispose of any strategic missiles or motors.

Note 15.A—Other Liabilities

As of September 30, 2000

(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental:			
A. Advances from Others	$ 126,900	$ 0	$ 126,900
B. Deposit Funds and Suspense Account Liabilities	3,694	0	3,694
C. Resources Payable to Treasury	542,244	0	542,244
D. Disbursing Officer Cash	176,631	0	176,631
E. Accounts Payable—Cancelled Appropriations	149,916	0	149,916
F. Judgment Fund Liabilities	33,480	326,875	360,355
G. Workman's Compensation Reimbursement to the Department of Labor	123,349	165,344	288,693
H. Other Liabilities	66,566	0	66,566
I. Total Intragovernmental Other Liabilities	$ 1,222,780	$ 492,219	$ 1,714,999
2. Nonfederal:			
A. Accrued Funded Payroll and Benefits	$ 145,318	$ 0	$ 145,318
B. Advances from Others	55,668	0	55,668
C. Deposit Funds and Suspense Accounts	21,146	0	21,146
D. Temporary Early Retirement Authority	16,800	27,000	43,800
E. Nonenvironmental Disposal Liabilities: Excess/Obsolete Structures	39,090	116,902	155,992
F. Accounts Payable—Cancelled Appropriations	181,141	0	181,141
G. Accrued Unfunded Annual Leave	1,750,696	0	1,750,696
H. Capital Lease Liability	13,050	222,039	235,089
I. Other Liabilities	564	656,069	656,633
J. Total Nonfederal Other Liabilities	$ 2,223,473	$ 1,022,010	$ 3,245,483
3. Total Other Liabilities	$ 3,446,253	$ 1,514,229	$ 4,960,482

4. Other Information Pertaining to Other Liabilities: The amount of $66.6 million on line 1.H. represents Unemployment Compensation of $28 million and $38.6 million of Government Contribution of Employee Benefits. Air Force's computed figures for the Judgement Fund differ from Treasury's records. A reconciliation will be performed to determine the validity of the records. The amount of $656.6 million on line 2.I. represents legal contingencies of $656.1 million and accrued interest liability of $563.5 thousand.

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

Unfunded liabilities on line 1.E. and 2.F. from "M" and closed years amounts to $331 million which is included on the balance sheet. Although closed appropriation liability balances are unreliable, it is possible that this liability will be liquidated using current year funding at the time of liquidation.

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

Certain legal actions to which the Air Force is named a party are administered and, in some instances, litigated by other Federal agencies. Tort claims and litigation against the Air Force are covered by the Federal Tort Claims Act (FTCA) (28 U.S.C. 1346(b), 2671-2680) and in Titles 10 and 32, U.S.C. Contingent liabilities of the Air Force under the FTCA are limited to administrative claims settled for $2,500 or less. Contingent liabilities of the Air Force for claims under Titles 10 and 32 are limited to the first $100,000 paid per claimant, except under 10 U.S.C. 2734a, and 10 U.S.C. 9801-9804. Under 10 U.S.C. 2734a, the Air Force pays the entire amount of any claim settlement. Under 10 U.S.C. 9801-9804, the Air Force contingent liability is the first $500,000 per claimant. Claims settled for more than $2,500 under the FTCA, and claims settled for more than the Air Force contingent liability under sections 2733, 2734, and 2738 of Title 10; and section 715 of Title 32 are paid from the Treasury's Judgment Fund. Amounts exceeding the Air Force contingent liability under 10 U.S.C. 9801-9804 are certified to Congress for payment. Under these claims statutes, the Judgment Fund is not reimbursed by Air Force appropriations. However, the Air Force must reimburse the Treasury's Judgment Fund for claims filed under the Contracts Disputes Act.

In addition to the contractor claims under appeal and the open contractor claims for an amount greater than $100,000, the Air Force was party to numerous other contractor claims in amounts less than $100,000 per claim. These claims are a routine part of the contracting business and are typically resolved through mutual agreement between the contracting officer and the contractor. Because of the routine nature of these claims, no requirement exists for a consolidated tracking mechanism to record the amount of each claim, the number of open claims, or the probability of the claim being settled in favor of the claimant. The potential liability arising from these claims in aggregate would not materially affect the operations or financial condition of the Air Force. The recorded estimated probable liability amount of $5.0 million has been included in the accompanying financial statements as an other unfunded expense and as an unfunded liability for open contractor claims greater than $100,000 and neither under appeal nor in litigation. A reasonably possible liability is estimated at $1.4 million.

As of September 30, 2000, the Air Force was a party to 2,340 claims and litigation actions. The total estimated probable liability for civil law and litigation claims against the Air Force as of September 30, 1999, were valued at $322.3 million, and has been included in the accompanying financial statements as an unfunded expense and an unfunded liability. This liability dollar amount recorded in the financial statements is an estimate based on a three-year weighted average. A reasonably possible liability is estimated at $213.4 millions. Neither past payments nor the current contingent liability estimate can be used appropriately to project the results of any individual claim. It is uncertain that claims will ever accrue to the Air Force. In addition to the fact that many cases simply lack merit, most claims, even if successful, will not be paid from Air Force accounts. Rather, judgments are ordinarily paid from the Judgment Fund, not from Air Force accounts even though claims were the result of Air Force operations. In many cases involving attorney fees, the amounts are not known until the last appeal is concluded.

The Legal Representation Letter describes contingent liabilities from cases which may or may not be paid from the Treasury's Claims, Judgement, and Relief Acts Fund depending on the final outcome. Since Air Force appropriations do not necessarily pay for all judgements or settlements for cases and the probability of payments is unknown, these contingencies from pending cases are not reflected in the financial statement.

As of September 30, 2000, the Air Force was a party to 194 contract appeals before the Armed Services Board of Contract Appeals (ASBCA). Such claims are funded primarily from Air Force appropriations. The contractor claims involve unique circumstances which are considered by the ASBCA in formulating decisions on the cases. The probable amount of loss from contractor claims of $157.7 million has been reflected in the financial statements. A reasonably possible liability is estimated at $23.4 million.

Line 2.E. is the current cost basis estimate of disposing of, or demolishing approximately $156 million worth of square feet of excess/obsolete structures at active installations, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36, dated May 5, 1998. The expected completion date is FY 2003.

The FY2000 nonenvironmental disposal liability was $0; there were no missiles at the end of the fiscal year for which a formal management decision had been made to decommission. A maximum nonenvironmental disposal liability of $9,305,659 was also determined based on the quantities of missiles and missile motors designated for disposal or identified in demilitarization plans. The maximum nonenvironmental disposal liability includes both strategic and tactical active and inactive missiles and missile motors. The maximum nonenvironmental disposal liability for strategic missiles was $0 because no missiles or missile motors were projected for disposal as of 30 September 2000. The maximum nonenvironmental disposal liability for tactical missiles and missile motors was $7,350,055 for active missiles, $1,955,604 for inactive missiles, and $0 for missile motors.

In addition, upon the implementation of the START II Treaty, all Peacekeeper missiles will be disposed. The estimated cost to dispose all Peacekeepers (AURs and uninstalled missile motors) is $9 thousand for environmental disposal liability and $63.5 million for nonenvironmental disposal liability.

Note 15.B—Capital Lease Liability

As of September 30, 2000		Asset Category	
(Amounts in Thousands)		Land and Buildings	Total
1. Future Payments Due:			
A. 2001		$ 13,051	$ 13,051
B. 2002		14,284	14,284
C. 2003		15,656	15,656
D. 2004		17,184	17,184
E. 2005		18,709	18,709
F. After 5 Years		156,205	156,205
G. Total Future Lease Payments Due		$ 235,089	$ 235,089
H. Net Capital Lease Liability		$ 235,089	$ 235,089
2. Capital Lease Liabilities Covered by Budgetary Resources:			$ 170,436
3. Capital Lease Liabilities Not Covered by Budgetary Resources:			$ 64,654

4. Other Information: Capital Leases prior to FY 1992 and leases purchased prior to FY 1991 were funded on a fiscal year basis. Capital leases and leases purchases entered into during FY 1992 and FY 1991, and thereafter must be fully funded in the first year of the lease.

Note 16—Commitments and Contingencies

Disclosures Related to Commitments and Contingencies: All disclosures related to known commitments and contingencies have been disclosed in note 14, Environmental Liabilities and Environmental Disposal Liabilities, and note 15.A., Other Liabilities.

Note 17—Military Retirement Benefits and Other Employment-Related Actuarial Liabilities

As of September 30, 2000 (Amounts in Thousands)	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Unfunded Actuarial Liability
Workmen's Compensation (FECA)	$ 1,123,249	5.60%	$ 1,123,249
Total Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	$ 1,123,249		$ 1,123,249

Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities: Actuarial Cost Method Used: The liability for future workers' compensation (FWC) benefits 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.

Assumptions: Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. The interest rate assumptions utilized for discounting were as follows:

2000
6.15% in Year 1,
6.28% in Year 2,
6.30% in Year 3, 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. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projection were as follows:

FY	COLA	CPIM
2000	1.97%	3.69%
2001	2.83%	4.24%
2002	2.90%	4.10%
2003	2.53%	4.16%
2004+	2.60%	4.16%

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis was based on three tests: (1) a comparison of the new model's prior year projected payments for the current year to the actual payments, (2) a comparison of the change in the liability amount by agency to the change in the aggregate liability, and (3) a comparison of the historical payment data imported into the new model to the benefit payments in prior years.

Note 18—Unexpended Appropriations

As of September 30, 2000 (Amounts in Thousands)

1. Unexpended Appropriations:		
A. Unobligated, Available	$	6,232,288
B. Unobligated, Unavailable		872,765
C. Unexpended Obligations		28,225,881
D. Total Unexpended Appropriations	$	35,330,934

2. Other Information Pertaining to Unexpended Appropriation: Unexpended obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for Direct Appropriated funds. This amount is distinct from Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received (line 2.A.) of the Statement of Financing, which includes the change during the fiscal year in unexpended obligations against budget authority from all sources.

Note 19—General Disclosures Related to the Statement of Net Cost

Disclosures Related to the Statement of Net Cost: The amounts presented in the Statement of Net Cost are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The Air Force generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, the Air Force's systems do not capture all actual costs. As such, information presented in the Statement of Net Cost is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems; and is adjusted to known accruals for major items such as payroll expenses, accounts payable, environmental liabilities, etc., and known imputed expenses.

Note 19.A—Imputed Expenses

As of September 30, 2000 (Amounts in Thousands)

1. Civilian (CSRS/FERS) Retirement	$189,105
2. Civilian Health	342,289
3. Civilian Life Insurance	1,372
4. Judgement Fund/Litigation	$ 2,677
5. Total Imputed Expenses	$535,443

Note 19.B—Exchange Revenue

Disclosures Related to Exchange Revenue: Goods and services provided through reimbursable programs to the public or another U.S. Government entity (intra-Air Force, intra-DoD or other federal government entity) are provided at cost. Such reimbursable sales are reported as earned revenues.

Costs are equal to the amount reported as earned. In FY 2000 Sales to the Foreign Military Trust Fund and related cost of sales have been reclassified as non-federal, transactions with the public, rather than intragovernmental as in prior years.

Note 19.C—Stewardship Assets

Disclosures Related to Stewardship Assets: Stewardship assets include Heritage Assets, Stewardship Land and National Defense PP&E. Costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets; costs of acquiring stewardship land; and costs to prepare stewardship land for its intended use are required to be recognized and disclosed in the Statement of Net Cost or in the notes. Such costs, if any, are not separately identifiable and are not believed to be material.

Costs from the following appropriations totaling $6.71 billion, net of adjustments, cost of goods and services provided to others and current year progress payments of $4.45 billion, are deemed to be for National Defense PP&E. (Outstanding progress payments will be expensed upon delivery of equipment. See note 6. As such, these costs are included in the Procurement Program Costs section of the Statement of Net Cost:

Aircraft Procurement, 57 */* 3010 (FC 11)	$	4.71 billion
Aircraft Procurement, 57 */* 3010, Supplemental (FC 3B)		.04 billion
Aircraft Procurement, 57 */* 3017, 2 Year Supplemental (FC 3L)		.04 billion
Aircraft Procurement, 57 */* 3016, Extended B-2 Authority (FC 3J)		.02 billion
Total Aircraft Procurement	$	4.81 billion
Missile Procurement, */* 3020 (FC 15)	$	1.80 billion
Missile Procurement, */* 3022, 2 Year Supplemental (FC 3N)		.10 billion
Total Missile Procurement	$	1.90 billion

Note 19.D—Reconciliation of Intragovernment Revenue

Disclosures Related to Intragovernmental Revenue and Expense: Revenue of $450 million from the Foreign Military Sales Trust Fund was reclassified to nonfederal. See note 1.F for additional disclosures.

Note 19.E—Suborganization Program Costs

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

Until costing allocating processes and expanded intra-Air Force eliminating capabilities are incorporated into the accounting processes, the usefulness of further suborganization-reported (major command) net costs is limited. It is for this reason that no additional statement of suborganization costs at lower levels are presented with these statements.

The Air Force is unable to accumulate costs for major programs based on performance measures identified under requirements of the Government Performance and Results Acts (GPRA). This inability is due to the financial processes and systems not being designed to collect and report this type of cost information. Until the processes and systems are upgraded, the Air Force, like the Department of Defense as a whole, will break out programs by major appropriation groupings.

The Statement of Net Cost format requires reporting program costs by costs incurred with intragovernmental and public entities. Although overall program costs are believed to be fairly stated, the cost allocations between intragovernmental and public based on available vendor type-coded data may not be totally accurate.

Note 20—Disclosures Related to the Statement of Changes in Net Position

As of September 30, 2000
(Amounts in thousands)

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:		
A. Errors and Omission in Prior Year Accounting Reports		(1,093,611)
B. Other Prior Period Adjustments		(4,372,430)
C. Total Prior Period Adjustments	$	(5,466,041)
2. Imputed Financing:		
A. Civilian CSRS/FERS Retirement	$	189,105
B. Civilian Health		342,289
C. Civilian Life Insurance		1,372
D. Judgment Fund/Litigation		2,677
E. Total Imputed Financing	$	535,443

3. Other Information (all figures in thousands):

Prior Period Adjustments consist of:

Removal of operating materials and supplies in the hands of contractors furnished by the Contract Property Management System (CPMS), in accordance with directives.	$	2,918,309
Adjustment of September 30, 1999, balances used in prior financial statements to October 1, 1999, balances furnished from feeder systems under development and/or implementation for construction in progress, operating materials and supplies, property plant and equipment and related accumulated depreciation.	$	2,178,453
Net adjustment to record correct September 30, 1999 closed account balances.	$	322,167
Net correction of September 30, 1999 balances of assets under capital lease, related accumulated depreciation, and principal portion of related liabilities.	$	47,112
Total	$	5,466,041

Note 21.A—Disclosures Related to the Statement of Budgetary Resources

As of September 30, 2000

(Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period	$ 28,948,683

2. Other Information: The statement does not include any amounts for which The Department of Treasury is willing to accept corrections to canceled appropriation amounts, in accordance with SFFAS No. 1.

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the Adjustments line on the Statement of Budgetary Resources), are not included in Spending Authority from Offsetting Collections and Adjustments line of the Statement of Budgetary Resources or the Spending Authority for Offsetting Collections and Adjustments line of the Statement of Financing.

Negative budgetary resources of $455 million (relating to Offsetting Receipts of Accounts shown on the Report on Budget Execution, or SF 133) are not included in the Statement of Budgetary Resources (combined, combining or disaggregated).

Due to accounting system deficiencies, the proper amount of intra-agency eliminations for this statement cannot be determined.

Accounting system deficiencies currently do not provide or capture data needed for obligations incurred and recoveries of prior year obligations in accordance with OMB Circular A-34, Instructions on Budget Execution requirements. Although DFAS Denver Center developed an alternative methodology to calculate these items, the auditors and DFAS Denver Center concur this methodology also distorts the obligation figures. As a result, the amount of distortion cannot be reliably determined, and may or may not be material.

Disaggregated Statements of Budgetary Resources are included in the Required Supplementary Information section of the statements. The abnormal balance in line D.9., Unobligated Balances-Not Available, in the Research, Development, Test, & Evaluation grouping relates to the cancelation of reimbursable authority at fiscal year end.

Audit results have shown that unliquidated obligations recorded in accounting systems as of September 30, 1999, were overstated and may have been materially incomplete. This causes an inaccuracy in the FY 2000 beginning balance.

Note 21.B—Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

As of September 30, (Amounts in thousands)	1998	1999	2000	Cumulative (Decrease)/ Increase
1. Problem Disbursements	$ 388,000	$ 201,436	$ 60,839	$ (327,161)
2. In-transit Disbursements, Net	$ 277,000	$ 193,370	$ 35,143	$ (241,857)

3. Other Information Related to Problem Disbursements and In-transit Disbursements: The Air Force has $96 million problem disbursements and in-transit disbursements that represent disbursements of Air Force funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts.

The problem disbursements and in-transit disbursements arise when the Air Force various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The Air Force has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements. As of September 30, 2000, these efforts resulted in a $1.766 billion decrease in reported problem and in-transit disbursements since June 1995.

4. Suspense/Budget Clearing Accounts

Account	Sep 1998	Sep 1999	Sep 2000	(Decrease)/ Increase
F3875	$ 10,399	$ 134,910	$ 60,686	$ 50,287
F3880	(1,348)	(8,367)	(3,187)	(1,839)
F3885	43,488	23,657	468,660	425,172
Total	$ 52,539	$ 150,200	$ 526,159	$ 473,620

5. Other Information Related to Suspense/ Budget Clearing Accounts: The Air Force has made a concerted effort to reduce balances in the suspense and budget clearing accounts, and to establish an accurate and consistent use of these accounts. The information presented indicates the significant reductions (with the exception noted below) that the Air Force has achieved in the various suspense/budget clearing accounts.

The large increase in F3885 for FY 2000 is due to numerous OPAC transactions received during the last business day of September and by established procedure are placed in this suspense account until they can be assigned to a valid appropriation.

On September 30 of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero by transferring the balances to proper appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements.

Note 22—Disclosures Related to the Statement of Financing

Intra-entity transactions have not been eliminated. The accompanying Statements of Financing are presented as combined or combining statements.

Financing Imputed for Cost Subsidies of $535.4 million consists of the imputed items listed in note 19.A., Imputed Expenses.

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

Note 23—Disclosures Related to the Statement of Custodial Activity

Not Applicable.

Note 24—Other Disclosures

1. Entity as Lessee-Operating Leases

A. Description of lease agreements:

Category 1: Medical Equipment—Operating leases are one (1) year leases with 4 option years. Each year, facilities must specifically exercise the option to continue the lease. The operating leases that contain an option to purchase allow the government to purchase the equipment at fair market value at the end of the lease period.

Category 2: Military Family Housing—The figures represents operating leased facilities in the U.S. and overseas applicable to active Air Force, Air Force Reserve and Air National Guard.

Category 3: Motor Vehicles—Operating Leases for Motor Vehicles are essentially one year leases funded as in appropriation 3400 (O&M). As the outyear estimates indicate, Air Force expects to continue to reduce the level of owned assets, while increasing the number of operational leases. Air Force will continue to displace commercial leases in favor of IFMS (GSA) leases because IFMS leases are typically more economical.

As of September 30, 2000

(Amounts in thousands)

B. Future Payments Due:		**Asset Category 1**		**Asset Category 2**		**Asset Category 3**		**Total**
Fiscal Year								
2001	$	1,281	$	47	$	50	$	1,378
2002		1,235		43		57		1,335
2003		1,061		0		0		1,061
2004		644		0		0		644
Total Future Lease Payments Due	$	4,221	$	90	$	107	$	4,418

Note 24.A—Other Disclosures

Interest Payable. DFAS Columbus has accumulated prompt payment interest of approximately $564 thousand during FY 2000 for Air Force contracts. The interest payments were not made because the unpaid invoices are under a reconciliation process in an interest-bearing mode.

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

Canceled Balances: All unliquidated balances associated with closed accounts have been canceled in accordance with Public Law 101-510. Canceled accrued expenditures unpaid are reflected in the financial statements as unfunded liabilities. Canceled undelivered orders outstanding are not included in the financial statements; however, these orders may result in future expenditures. Canceled receivables are included in the Air Force Balance Sheet.

General Funds

Required Supplementary Stewardship Information

National Defense Property, Plant, and Equipment
for Fiscal Year Ended September 30, 2000 (Stated in Number of Systems or Items)

National Defense PP&E	As of 10/01/99	Additions	Deletions	As of 9/30/00	Condition % Operational
1. Aircraft					
A. Combat	3,139	67	67	3,139	78
B. Airlift	1,856	44	53	1,847	76
C. Other Aircraft	1,299	45	31	1,313	81
2. Guided, Self-Propelled Ordnance					
A. Missiles	61,584	3,798	5,813	59,569	81
3. Space systems					
A. Satellites	71	8	5	74	100

Narrative Statement

As of the date these statements were prepared, the Federal Accounting Standards Advisory Board (FASAB) had not determined the final reporting requirements for National Defense Property, Plant, and Equipment (ND PP&E). Therefore, the Department of Defense (DoD) elected to report ND PP&E in Fiscal Year (FY) 2000 in a manner similar to how it was reported in FY 1998 and FY 1999. Acting on FASAB recommendations, DoD in FY 1998 implemented the then proposed amendments to the accounting standards, i.e. the reporting of quantities, condition and investment trends for major types of ND PP&E. Unfortunately, at subsequent FASAB meetings, the Board chose not to implement the proposed amendments, but to continue studying various alternatives for reporting ND PP&E. These studies were ongoing in FY 2000.

Since the FASAB did not adopt the proposed amendments, DoD is not in full compliance with the existing requirements to report the value of ND PP&E, utilizing the latest acquisition cost method. DoD cannot fully comply with the existing reporting requirements, because many of its ND PP&E accountability and logistics systems do not contain a value for the ND PP&E assets. These systems were designed for purposes of maintaining accountability and meeting other logistics requirements, and not for reporting the values of ND PP&E.

Given the complexity and interim nature of the existing temporary reporting requirements, and the enormous cost of implementing those requirements, DoD is continuing to use the prior year reporting formats. Further, DoD believes the most reasonable and responsible course of action is to report quantity and investment information for ND PP&E until such time that the FASAB adopts permanent reporting requirements.

1. Aircraft
    a. As of September 30, 2000, the Air Force had 6,299 active and 2,130 inactive aircraft in its inventory. Not included in this number are 773 aircraft at the Aerospace Maintenance and Regeneration Center

(AMARC) in various stages of being dismantled. Due to a change in DoD Financial Management Regulations, Volume 6B, Chapter 11, i.e. to report only aircraft in “active status”, the beginning balance was restated from 8,559 to 6,335. The Air Force also resolved other issues with the FY 99 ending balance, resulting in a reduction of an additional 41 units from the FY 00 beginning balance. After further research by the Air Staff, some aircraft were reclassified among the three major categories (combat, airlift, and other). These actions made it necessary to restate the beginning balance for each aircraft subcategory. Of the 156 aircraft added to the inventory in FY 2000, 82 were acquired by means of contracts from the private sector. The remainder were due to aircraft converted to other mission design series (MDS), or returned to active status. The 151 aircraft deleted included 43 that were either sold to foreign military, transferred to reclamation projects at AMARC (dismantled), or crashed. The remaining 108 aircraft either were reclassified by conversion or transferred to an inactive status. All active and inactive aircraft, except for reclamation aircraft at AMARC, are accounted for in the Equipment Inventory Multiple Status Utilization Reporting System (EIMSURS), a subsystem to the Reliability & Maintainability Information Management System (REMIS). The aircraft inventory, along with the assignment, possession, and condition, is maintained on a daily basis.

The inactive aircraft reported by the Air Force has a beginning balance of 2,224, consisting of combat, airlift, and other aircraft. The Air Force added 76 aircraft and deleted 170 during the year, leaving an ending balance of 2,130, as of September 30, 2000. The additions and deletions from this inventory, in most cases, were the result of changes in aircraft active status.

b. The Air Force had a beginning balance of 743 aircraft in AMARC. During the year, 95 additional aircraft were added to the inventory and 65 were deleted, leaving an ending balance of 773. The Air Force uses AMARC to reclaim parts and assemblies from stored aircraft in support of customer needs. Parts are removed from these aircraft when they are no longer in production or available from within the supply system. The types of reclamation include
(1) Priority Removals (urgent and unforeseen requirements which cannot be satisfied through normal supply channels),
(2) Programmed (requested in volume to satisfy long range forecasts), and (3) Mini Save List (parts removal to satisfy high priority requirements). Once all salvageable parts have been removed, the remaining portion of the aircraft is transferred to the Defense Reutilization and Marketing Service (DRMS) for sale. In FY 2000, most of the 65 aircraft deleted followed this process.

2. Guided, Self-propelled Ordnance

   a. The Air Force currently has 59,569 active and 132 inactive missiles in inventory. The active inventory consists of 2,244 strategic missiles and 57,325 tactical missiles. The ICBM inventory consists of Minuteman, Peacekeeper, and air-launch cruise missiles. All complete ICBMs are accounted for, as to quantities and readiness, by the EIM-SURS. The tactical missile inventory consists of Maverick, Sidewinder, HARM, Sparrow, AMRAAM, Power Standoff Weapon, Have Nap, Stinger, and Harpoon. The tactical missiles are accounted for in the Army's Standard Depot System (SDS), The Air Force's Combat Ammunition System (CAS); the Item Manager's Wholesale Requisition System (IMWRS), and various diverse manual systems.

b. In FY 1999, the Air Force reported an ending balance of 80,360 strategic and tactical missiles. This figure has been restated to 61,584 for the following reasons: (1) DoD Financial Management Regulation, Volume 6B, Chapter 11, required the reporting of only active inventory. This required the Air Force to eliminate 269 strategic missiles and 1,596 tactical missiles from the FY 1999 ending balance. (2) A better definition of what constituted an All-Up-Round. The Air Force eliminated 2,801 tactical missiles, consisting of trainers, drones, and dummies and 58 unassembled ICBMs from the ending balance. (3) As a result of system modifications and better reporting policies and procedures, the Air Force discovered that 15, 471 Maverick missiles had been double counted. These duplicate missile counts have been eliminated from the ending inventory. Also, 1,361 Stinger, AMRAAM, Sidewinder, and Sparrow missiles had not been reported, and have been added to the inventory. The Air Force is in the process of studying ways to avoid duplicate reporting, and to provide better controls over their munitions.

c. The additions reported during the year were the result of acquisitions to replace inventories. The deletions were the result of sales to foreign countries, training, and obsolescence. Some of the systems used by the Air Force to track missiles cannot provide the quantitative data for acquisitions and deletions made during the year. These systems were designed to report either inventory balances or just the dollar value. Where the dollar values are provided, the systems cannot provide quantitative data by tracking back to specific acquisitions or sales. Consequently, the data reported above as to quantities added and deleted are not complete. The Air Force currently is working on system modifications and studying ways to improve the accounting and reporting problems associated with all munitions.

d. Not included in the above quantitative data are other tactical missiles considered secret.

3. Space Systems

a. The Air Force, as of September 30, 2000, has 74 unclassified satellites in either operational orbit (48) or in storage with contractors (26). The 74 unclassified satellites consist of 44 GPS, 14 DSCS, nine DMSP, two MILSATCOM, one ARGOS, one RADCAL, one STEP-MO, one MightySat II, and one MISTI-3. The FY 1999 ending balance (FY 2000 beginning balance) has been restated from 67 to 71. Four satellites, consisting of one ARGOS, one RADCAL, one STEP-MO and one MISTI-3, were not included in FY 1999 data. This omission occurred because (1) several organizations responsible for different types of satellites had not been required to report their satellites in operational orbit, and (2) a lack of a centralized reporting system. The AF is currently establishing a centralized reporting system to capture and maintain satellite inventories. Until the system is established, a manual procedure is in place to account for the balances and transactions that affect satellite inventory. In addition to the above operational satellites, the Air Force has other miscellaneous satellites (quantity unknown) that are not being reported. In most cases, these satellites are acquired or maintained out of Research, Development, Test & Evaluation funds. Many of these satellites have been removed from active inventory as a result of not meeting the initial orbit requirements. The Air Force is currently examining the need to report these types of satellites.

b. During FY 2000, one TSX-5, one MightySat II, one FalconSat, and five GPS satellites were acquired. All Air Force national defense satellites reported as additions to the quantitative data were obtained by means of private sector contracts, with the exception of the FalconSat satellite, which was built as a project by students at the Air Force Academy. The five satellites reported as deletions during the year became inoperable while in orbit.

c. The Air Force also has other classified satellites in operational orbit or storage that are not reported in the above quantitative data. All satellites in operational orbit are considered to be in workable condition and are not subject to deferred maintenance.

National Defense Property, Plant, and Equipment Yearly Investments for FY 1998 and FY 2000 (in Millions of Dollars)

National Defense PP&E	FY 1998	FY 1999	FY 2000
1. Aircraft			
A. Combat	2,028	3,347	2,746
B. Airlift	3,381	3,973	4,397
C. Other	1,129	638	745
D. Aircraft Support Principal End Items		261	392
E. Other Aircraft Support PP&E		435	N/A
2. Guided, Self-Propelled Ordnance			
A. Missiles	113	381	369
B. Guided, Self-Propelled Ordnance Support PP&E		24	34
3. Space Systems			
A. Satellites	517	1,438	1,053
B. Space Systems Support Principal End Items	537	443	660

Narrative Statement

1. Investment values included in this report are based on outlays (expenditures). Outlays are used instead of acquisition costs because current Department systems are unable to capture and summarize Procurement Appropriation acquisition costs in accordance with current Federal Accounting Standards Advisory Board requirements.

2. The yearly investment costs for aircraft, missiles and satellites along with associated support principal end items were extracted from the DOLARS-Status of Funds System, which prepares the ACCT-RPT(M)1002 report. To arrive at the costs reported, Budget Program Activity Codes (BPACs) were identified for each major category, by type (combat, airlift, other, ICBM, tactical missiles, satellites and support equipment). Using these BPACs, an extract was then prepared to obtain the values reported. Excluded from our extract were BPACs reported for aircraft spares, repair parts, reimbursable program cost and undistributed costs. These costs were considered to be OM&S acquisitions.

3. Aircraft (See Note 1. previous section)

   a. Aircraft Support Principal End Items. The Air Force has determined that uninstalled aircraft engines and avionics pods will be reported as aircraft support principal end items for FY 2000. The majority of all aircraft engines, both installed and uninstalled, are maintained in the Comprehensive Engine Management System (CEMS). This system tracks engines from cradle to grave and provides maintenance history for each engine. In FY 2000, the Air Force identified and reported additional engines managed by Contractor Logistic Support (CLS) at Wright-Patterson AFB and Oklahoma City Air Logistic Command that were not included in the CEMS. These engines are currently managed and tracked manually. The Air Force is currently taking action to ensure that all aircraft engines are included in CEMS. As of September 30, 2000, the Air Force had 128 engines with contractors. The CEMS and CLS engine managers reported a beginning balance of 5,870 uninstalled engines for the Air Force and an ending balance of 5,722 as of September 30, 1999. Of this balance, 37.6 percent were considered operational, or in either "built up" or "raw" serviceable condition. During the course of the year, 145 aircraft engines were added to the inventory and 293 were deleted.

The Air Force has designated Reliability, Availability, Maintainability, Logistics Engineering Support (RAMPOD) as the system of record for all electric combat and integrated system pods. RAMPOD was designed to track each pod from cradle to grave and provide accurate maintenance data in order for the Air Force managers to make sound fiscal and operational decisions. Currently, the Air Force has eight of the ten different types of pods included in this system. In FY 2000, the Air Force incorporated the Electronic Warfare Tactical Simulation Pods, Precision Attack Low Attitude Navigation and Targeting System, Pave Penny Pod, Litening II, Theater Airborne Reconnaissance System, and the Data Link Pod into RAMPOD. This added 1,928 Pods to the beginning balance of 2,730 which made up the balance reported for Electronic Attack Pods (Electronic Countermeasures and Electronic Warfare) and the Air Combat Training Systems. The Advance Range Data System and HARM Tracking System Pods are currently not included in the RAMPOD. These Pods will be loaded in RAMPOD during FY 2001. As a result of Air Force actions, the FY 1999 ending balance (FY 2000 beginning balance) has been restated to 4,855 Pods, while the ending FY 2000 balance is 4,936. During the year, 206 Pods were added to the inventory and 125 were deleted. Of the 4,936 Pods, 78 percent are considered fully mission capable.

b. Other Aircraft Support PP&E. The Air Force has determined that assets acquired from aircraft funding (appropriation 3010) with budget code "Q"-Aircraft Weapon Systems and Peculiar Support Equipment would be considered as other aircraft support PP&E. In FY 1999, the Air Force reported an ending balance of 1,512 items (FY 2000 beginning balance). During the year, 66 items were acquired, and none were deleted. The ending balance, as of September 30, 2000, was reported at 1,578 items valued at $1.4 billion. Examples of other aircraft support equipment include engine test sets, brake test sets, and insulation test sets.

4. Guided, Self-propelled Ordnance (See Note 2. previous section)

   a. Guided, Self-propelled Ordnance Support Principal End Items. The Air Force has determined that ICBM motors and Cruise missile engines will be reported as Guided, Self-propelled Ordnance Support Principal

End Items for FY 2000. These ICBM motors are maintained in the Integrated Missile DataBase (IMDB), while two types of Cruise engines are maintained in the Comprehensive Engine Management System (CEMS). In FY 2000, the Air Force had in inventory 1,740 extra ICBM motors, consisting of Minuteman I, II, III, stages 1, 2, and 3, Peacekeepers, stages 1, 2, 3, and 4, and 665 miscellaneous (i.e. Castor, SRAM, Orbus) uninstalled missile motors and 342 Cruise engines. Of the 2,747 uninstalled motors and engines, 1,448 were reported as flight worthy. The ICBM motors, in addition to being maintained for the missile program as replacement spares, are also being used by the Rocket System Launch Program to launch various different types of satellites, after modification. The miscellaneous missile motors are maintained for research and development purposes only.

b. Guided Self-propelled Ordnance Support PP&E. The Air Force reported an ending balance of 2,885 equipment items as ND PP&E Guided, Self-propelled Ordnance Support PP&E for FY 2000. These quantities were obtained from the Air Force Equipment Management System (AFEMS) and included assets acquired with missile procurement funding (Appropriation 3020 with Budget Codes “E”-Missile Replacement Equipment and Procurement, Budget Code “H”-Nuclear Ordinances, and Budget Code “P”-Missile Weapon Systems and Peculiar Support Equipment). Examples of these equipment items include missile altimeter testers, guided missile maintenance stands, bomb guidance test sets, and fixture test sets.

5. Space Systems (See Note 3. previous section)

Space Systems Support Principal End Items. The Air Force has determined that launch vehicles will be considered Space System Support Principal End Items to the satellite program. As of September 30, 2000, the Air Force had an ending balance of four unexpended launch vehicles (Titan II) in their inventory. During FY 2000, the Air Force launched 8 satellites. These launches used one Atlas IIA, one Pegasus XL, one Titan IVB, two Titan II, and three Delta II as launch vehicles. An Inertial Upper Stage (IUS-22) was also utilized with the Titan IVB launch vehicle. Most of these launch vehicles were acquired during the year based on the type of satellite launched. The cost associated with these launch vehicles are added to the value of the satellite successfully or unsuccessfully launched to arrive at the full cost of the satellite.

Heritage Assets
for Fiscal Year Ended September 2000

	Measurement Quantities	As of 10/01/99	Additions	Deletions	As of 9/30/00
Museums	Each	14	0	0	14
Monuments & Memorials	Each	151	0	0	151
Cemeteries & Archeological Sites	Sites	6,039	0	4,679	1,360
Buildings & Structures	Each	4,177	0	150	4,027
Major Collections	Each	8	0	0	8

Narrative Statement

1. Museums—The Air Force Museum, located at Wright-Patterson Air Force Base, Ohio, houses the main collection of historical artifacts that are registered as historical property in the USAF Museum System. The other 13 Air Force museums are considered Air Force Field Museums, which also contain items of historical interest; some, however, are specific to their locality. As of September 30, 2000, the Air Force Museum System reported 60,897 items that display the material culture of the Air Force and its predecessor organizations, including advances in technology and significant persons, places and events in Air Force history. During the reporting year, 1,879 items were added, while 6,212 were deleted. The overall condition of the collections in the 14 museums is good; items are displayed and protected in accordance with the standards of Air Force Instruction 84-103, USAF Museum System.
2. Monuments and Memorials—The memorials and monuments reported above, except for 28, are all located at the Air Force Academy in the Air Gardens and Honor Court. Most of these monuments and memorials honor specific individuals or cadet wings for various accomplishments. The remaining 28 memorials, all with a cost that exceed $100,000, are located on various Air Force bases throughout the U.S. All are reported in acceptable condition.
3. Cemeteries & Archeological Sites—The Air Force has administrative and curatorial responsibilities for 39 cemeteries on its bases, plus 1,321 sites that meet the definition of what constitutes an archeological site as outlined in the National Historical Preservation Act. The beginning balance for cemeteries has been adjusted from 27 to 39 due to a better definition of what constitutes a cemetery. Many bases now report multiple cemeteries that were combined in FY 1999. The Air Force bases are responsible for care and maintenance of each cemetery, and the cemeteries are reported in good condition. The decrease of 4,679 archeological sites, as reported, represents those sites that have not been evaluated for historical significance, but are included in the Air Force inventory of sites. The Air Force modified its report to include only those sites that have been included in the National Register of Historic Places, or have been determined to be historically significant and eligible for inclusion in the National Register. As of September 30, 2000, 29 sites are listed in the National Register of Historic Places, and 1,192 have been determined to be eligible by the keeper of the

National Register of Historic Places, or through document consultation with State Historic Preservation Officers. Examples include a "Mound", referred to as the Wright-Patterson Air Force Base Mound, constructed between 500 B. C. and 400 A. D. by the Adena people, which is 8.2' high and 86' in diameter. Other examples are Pre-Columbian (1000-1499 AD) petroglyphs and pictographs found on canyon walls and large rocks, and consisting of bighorn sheep, deer, and various figures and other symbols. These archeological sites are located within the Desert National Wildlife Range and the Nellis Range. The Air Force archeological sites are in good condition, as documented by the Air Force in their submittal to the Department of Interior, for the Federal Archeological Report for FY 1999. Each Major Command is responsible for the care and maintenance of the archeological resources under their care, in compliance with the National Historic Preservation Act, and the Archeological Resources Protection Act. The Air Force archeological resources inventory is in compliance with both laws.

4. Buildings and Structures—The Air Force currently considers 4,027 buildings and structures as heritage assets. The decrease reported this year represents those buildings for which the Air Force is not the principal property manager. The September 30, 1999, data included buildings in which the Air Force was the secondary tenant. Examples include property located at Jefferson Barracks (100) and Fort Des Moines (50). Of the 4,027 buildings and structures, 1,831 are currently on the National Register of Historical Places. Most of the buildings and structures are considered to be multi-use heritage assets, and as such, have been capitalized, depreciated, and reported as general PP&E. Deferred maintenance for these buildings are included in the General PP&E, Real Property Deferred Maintenance Table as part of the Required Supplementary Information.

5. Major Collections—The Air Force has 8 significant or major collections consisting of: (a) historically significant materials (5 sites), (b) the Air Force Art Collection, and (c) two collections at the Air Force Academy containing historical items and memorabilia as well as distinctive works of art. In FY 2000, the Air Force reported a beginning balance of 50,588 linear feet of historically significant materials in the permanent collection of the Air Force Historical Research Agency at Maxwell Air Force Base, Alabama, plus unique and permanent documentation in four other Air Force heritage repositories. Increases during the year of 371 linear feet reflect normal accessions, leaving an ending balance of 50,959. During FY 2000, the Air Force reported an increase to the USAF Art Collection of 228 items. These items were added to the beginning balance of 8,351, leaving an ending balance of 8,579. The Air Force Art collection consists of original oils, drawings, sketches and sculptures. The two major collections at the Air Force Academy consist of historical items and memorabilia as well as distinctive works of art. The US AF Museum has not completed its inventory of the Academy holdings. It is anticipated that USAF Museum personnel will complete the validation of the inventory by the end of the calendar year. The curators for all major collections reported the contents to be in good condition. They further added that almost all of the materials are protected in an environment suitable for long-term storage.

Stewardship Land
for Fiscal Year Ended September 2000 (Acres in Thousands)

Land Use	As of 10/01/99	Additions	Deletions	As of 9/30/00
Mission	7,719	17	3	7,733

Narrative Statement

The Air Force has 7,732,989 acres of mission-essential land under their administration. Of that amount, 7,607,652 acres were acquired through public domain, Executive Orders, Public Land Orders, Permits with the Department of Interior, or Notes issued by the Air Force. The remainder of the land was obtained from private sector donations (9,556 acres), and from state and local governments (115,781 acres). Lands purchased by the Air Force, with the intent to construct buildings or facilities, are considered general PP&E and are reported on the balance sheet. During the past year, 16,537 acres were acquired through public domain process as identified above, while 62 acres were acquired from private sources. The Air Force reduced their public domain holdings by 2,296 acres, and those from state and local governments by 349 acres. All Stewardship lands, as reported, are in acceptable condition, based on designated use. Some Stewardship Land is used for training, i.e., bombing ranges, and will have some cleanup costs associated with its use.

Nonfederal Physical Property
Yearly Investment in State and Local Governments
for Fiscal Years (Preceding 4th Fiscal Year) through FY 1999
(in Millions of Dollars)

Categories	FY 1999	FY 2000
National Defense Mission Related	$16.6	$6.8

Narrative Statement

The Air National Guard investments in non-federal physical property are strictly through 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. Figures reported represent the dollar value of agreements signed during the fiscal years.

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 Accounting Standards Advisory Board Requirements.

Investments in Research and Development
Yearly Investment in Research and Development
for Fiscal Year (Preceding 4th Fiscal Year) through FY 1999 (in Millions of Dollars)

Categories	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
1. Basic Research	$216	$228	$212	$206	$193
2. Applied Research	596	650	583	562	547
3. Development					
Advanced Technology Development	848	652	491	483	496
Demonstration and Validation	914	890	1,190	1,295	1,013
Engineering and Manufacturing Development	4,927	4,667	4,371	4,200	3,991
Research, Development, Test and Evaluation Management Support	1,215	1,116	1,097	934	805
Operational Systems Development	3,909	6,232	6,798	6,810	7,062
Total	$12,625	$14,435	$14,742	$14,490	$14,107

Note: the Values reported above do not include any undistributed disbursements.

Narrative Statement

1. Basic Research—The Air Force's Defense Research Sciences Basic Research program funded basic scientific disciplines that are core to developing future warfighting capabilities. Funding was provided to twelve scientific projects, one project focused on education programs for scientists and engineers, and international programs. The scientific projects were focused on atmospherics, biological sciences, chemistry, electronics, fluid mechanics, human performance, materials, mathematical and computer sciences, physics, propulsion, space sciences, and structures. The educational program emphasis was on mathematics and computer sciences, chemistry, electronics and physics. This program discovered the first all-nitrogen compound in over 100 years, the N5+ molecule, which could provide a super energetic propellant because of being extremely energetic and very stable.

2. Applied Research—The Air Force's Applied Research program is developing technologies to support both an air and space force of the future. Technology developments are focused in those areas that are essential to future warfighting capabilities. This investment strategy recognizes the enabling technologies that are being developed by commercial industry and allows the Air Force to focus on those military-relevant technologies that are not being developed by industry. Technology developments are done in a laboratory environment. Two examples are hardware in-the-loop simulation of laser algorithms for terminal guidance of small conventional weapons, and the development of a trans-atmospheric vehicle simulation capability.

3. Advanced Technology Development—The Air Force's Advanced Technology Development program demonstrates, in a realistic operational environment, integrated sets of technology to

prove military worth and utility. Technology achievements included fabrication of an Unmanned Combat Aerial Vehicle (UCAV). The UCAV is a joint Defense Advanced Research Projects Agency (DARPA) program which will demonstrate the utility of using an unmanned vehicle to drop small munitions. Additionally, an advanced jet fuel additive developed in this program transitioned into operational use in the Air Force. The new additive significantly reduces maintenance costs on high performance turbine engines. The Federal Aviation Agency has approved the use of the additive in commercial aviation.

4. Demonstration and Validation—The Air Force's Demonstration and Validation program is comprised of system specific advanced technology integration efforts accomplished in an operational environment to help expedite transition from the laboratory to operational use. Examples of the Air Force's Demonstration and Validation efforts are: (1) Airborne Laser (ABL), which will design, build, and test a high-energy laser weapon. The primary task is to acquire, track, and kill theater ballistic missiles in boost phase of flight. The system utilizes a commercial 747 freighter aircraft that was delivered for modification in January 2000. Other notable ABL accomplishments include the completion of the System Critical Design Review on 27 April 2000. (2) Advanced EHF-Engineering Model, which will develop digital processors to produce a more capable and cheaper Advanced EHF satellite. During FY 2000, the digital processor development was finished, and testing began at Lincoln Lab Testing Facilities in October. Early development of the digital processors will reduce both economic risk and technical risk for the future engineering and manufacturing development phase. (3) Combat Identification-Enhanced Recognition and Sensing Laser Radar (ERASER), which develops a new tool for non-cooperative target identification. ERASER allows attack aircraft to stand off at longer ranges when employing weapons, increasing effectiveness/survivability, and reducing fratricide. ERASER consists of a modified laser designator and an extremely sensitive infrared camera. During FY 2000, the Air Force demonstrated ERASER to have an exceptionally long range and higher resolution imaging capability when compared with current technology.

5. Engineering and Manufacturing Development—The Air Force's Engineering and Manufacturing Development (EMD) efforts are projects which have not received approval for full rate production. Examples of the Air Force EMD efforts are: (1) Joint Direct Attack Munitions (JDAM), which is a low cost, autonomously controlled, adverse weather, global position system-aided inertial navigation guidance kit for the Air Force/Navy 1,000 pound (MK-83), 2,000 pound (MK-84 and BLU-109), and 500 pound (MK-82) general purpose bombs. Currently, EMD is complete for the MK-84, BLU-109, and MK-83 JDAM tailkit, and EMD efforts have begun for the MK-82 JDAM. As part of low rate initial production, 5,779 JDAM tailkits have been delivered, and a decision for full rate production is expected in February 2001. A total of 88,569 JDAMs are expected to be produced (63,073 Air Force, 25,496 Navy). (2) Specialized

Undergraduate Pilot Training (SUPT), which is a joint Air Force and Navy venture to obtain a Joint Primary Aircraft Training System (JPATS) and Ground Based Training System (GBTS). JPATS, known as the T-6A Texan II, will replace the USAF and USN primary trainer aircraft (T-37B and T-24C, respectively) and associated GBTS. These systems will be used to train entry-level student aviators in the fundamentals of flying, leading to fully qualified military pilots, navigators, and navel flight officers. In February 2000, the Air Force accepted delivery of the T-6A manufacturing development aircraft, and has since completed the EMD effort. (3) Expendable Launch Vehicle (EELV), which replaces the current fleet of Titan, Atlas and Delta launch vehicles. The EELV program is half way through a four-year partnership with industry to develop two new families of space launch vehicles. Once operational, EELV will launch both commercial and Government satellite payloads. (4) Integrated Command and Control Applications, which will provide the Air Force capability for a virtual meeting space for geographically dispersed units to work together. This effort worked with the Joint Battle Center to assure Air Force input on a collaboration tool.

6. 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 installation or operations required for general research and development use. Included would be test ranges, military construction, maintenance support of laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the research and development programs. Examples of Air Force RDT&E management support are: (1) The Major Test and Evaluation Investment program, which funds the planning, improvement, and modernization for three national asset test centers having over $10 billion of unique test facilities/capabilities operated and maintained by the Air Force for DoD test and evaluation missions, and available to others having a requirement for their unique capabilities. Many efforts are contained within this program, but two examples are the Guided Weapon Evaluation Facility (GWEF) and the Common Airborne Instrumentation System (CASIS) project. GWEF, located at Eglin AFB, performs weapons testing in a multi-spectral realistic simulated test environment. GWEF supported EGBU-15 testing during and after Kosovo (December 99-May 00). The CAIS project will standardize aircraft instrumentation between test centers, providing a common suite of instrumentation and support systems. Components of the system have been used during B-52/JASSM testing and by the T-38 aircraft at the Test Pilot School. (2) The Threat Simulator Development program, which supports many of the Air Force Electronic Warfare Test Processes. Current projects focus on improved Low Radar Cross Section (RCS) measurements, advanced sensor testing and fused sensor testing, high fidelity threat modeling and simulation, and enhanced IR and RF countermeasures testing. During the past year, high fidelity threat models were used to support F-22 and JSF testing. Enhanced IR and RF

capabilities were used to support JSF, SOCOM and Navy programs. Advanced sensor testing capabilities were used to support Army Apache and British Tornado testing. High fidelity threat models incorporating Electronic Combat capability were completed. This capability is currently supporting the B1 modification and JSF programs where testing during the early developmental phase of programs could save money, as design changes in this phase are less costly.

7. Operational Systems Development—The Air Force's Operational Systems Development efforts include projects in support of development acquisition programs or upgrades in EMD. Examples of operational systems development are: (1) C-17 Required Navigation Performance, RNP-4, which provides the C-17 with continuous navigation performance without time limitations and allows required air traffic control data to be transmitted via a high frequency data link. Initial development of design and requirement integration began this year. (2) C-5 Reliability Enhancement and Reengineering Program (RERP), which improves C-5 reliability, maintainability and availability and reduces total ownership cost. By replacing the power plant and fixing unreliable system components, C-5 RERP increases capability, throughput, and access to GATM airspace. In January 2000, the Pre-EMD sole source contract was awarded to Lockheed-Martin Aeronautics (LM Aero) and Engine/pylon sub-contractors selected by LM Aero (General Electric/B.F. Goodrich). Actual EMD contract award is scheduled for early 2001. (3) Airborne Warning and Control System (AWACS) projects included an on board HF EM capability that was developed and demonstrated on the AWACS fleet. This effort will lead to a less then $2 million, rapid fleet-wide solution to meet a warfighter requirement identified as a Kosovo lesson learned. (4) AIM-9X Sidewinder project, which improves seeker performance, infrared counter-countermeasures, and kinematics of the AIM-9M short-range air-to-air missile. Aim-9X regains short-range first-shot, first-kill capability for the U.S. warfighter. Test and Evaluation efforts have been positive, with nine successful guided launches and eight direct hits to target drones. Other notable accomplishments include the modeling and simulation suite accreditation and contract award date for low rate initial production scheduled for November 2000. (5) GPS Modernization, which was initiated in response to jamming threats and the national policy to encourage civil use of GPS without degrading military utility. All recommended GPS enhancements support economic infrastructure and national security. Modernization efforts include adding a new military signal and civil signals to future GPS satellites.

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General Funds

Required Supplementary Information

For the year ended September 30, 2000
($ in Thousands)

	Military Personnel	Operation and Maintenance	Procurement
BUDGETARY RESOURCES			
Budget Authority	$ 20,256,624	$ 28,217,330	$ 19,131,872
Unobligated Balance - Beginning of Period	432,380	752,088	3,929,072
Net Transfers Prior-Year Balance, Actual	(23,000)	116,316	9,303
Spending Authority from Offsetting Collections	272,947	3,008,757	195,517
Adjustments	(158,627)	(73,613)	(618,145)
Total Budgetary Resources	$ 20,780,324	$ 32,020,878	$ 22,647,619
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 20,509,789	$ 31,235,884	$ 19,127,425
Unobligated Balances - Available	19,104	166,282	3,345,971
Unobligated Balances - Not Available	251,430	618,712	174,222
Total, Status of Budgetary Resources	$ 20,780,323	$ 32,020,878	$ 22,647,618
OUTLAYS			
Obligations Incurred	$ 20,509,789	$ 31,235,884	$ 19,127,425
Less: Spending Authority from Offsetting Collections and Adjustments	(415,941)	(3,470,664)	(765,628)
Obligated Balance, Net - Beginning of Period	1,370,425	9,253,164	16,680,217
Less: Obligated Balance, Net - End of Period	(675,050)	(9,204,712)	(16,284,091)
Total Outlays	$ 20,789,223	$ 27,813,672	$ 18,757,923

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

See Notes 1 and 21.

Research, Development, Test & Evaluation	Military Construction/ Family Housing	Other General Funds	Combined Total
$ 14,680,582	$ 1,456,522	$ 5,091	$ 83,748,021
1,743,395	448,715	2,757	7,308,407
7,319	117,117	0	227,055
1,565,881	0	9,991	5,053,093
(116,652)	(21,232)	(1,948)	(990,217)
$ 17,880,525	$ 2,001,122	$ 15,891	$ 95,346,359
$ 15,811,937	$ 1,543,783	$ 12,488	$ 88,241,306
2,265,581	431,946	3,403	6,232,287
(196,993)	25,394	0	872,765
$ 17,880,525	$ 2,001,123	$ 15,891	$ 95,346,358
$ 15,811,937	$ 1,543,783	$ 12,488	$ 88,241,306
(1,825,350)	(20,454)	(9,991)	(6,508,028)
5,386,255	1,311,354	506	34,001,921
(5,533,339)	(1,712,467)	(1,102)	(33,410,761)
$ 13,839,503	$ 1,122,216	$ 1,901	$ 82,324,438

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

See Notes 1 and 21.

General Property, Plant, and Equipment
Real Property Deferred Maintenance Amounts
As of September 30, 2000 (Amounts in Thousands)

Property Type/Major Class	
Real Property	
Buildings	$ 5,908,000

Narrative Statement

The Air Force Office of the Civil Engineer, Operations and Maintenance Division (AF/ILEO), estimates a $4.442 billion deferred maintenance liability for Fiscal Year (FY) 2000. It is a $329 million increase from the FY 1999 liability. The figure comes from the FY 2000 Facility Investment Metric (FIM) and includes amounts for heritage assets and stewardship lands. This amount was not reported in Budget Exhibit OP-28 because the definition and accounting category for "sustainment" is new for FY 2002.

The Air Force Office of Civil Engineering Housing Division (AF/ILEH) estimates a $1.466 billion deferred maintenance liability. This is a $221 million increase from the FY 1999 liability. This figure comes from the FY 1999 Real Property Maintenance Model, a system that consists of 1998 housing condition assessments on a three-year cycle performed by licensed civilian architects and engineers. The figure includes amounts for heritage assets.

No procedures are currently in place to separate the deferred maintenance amounts for buildings and structures.

National Defense Property, Plant, and Equipment
Deferred Maintenance Amounts
As of September 30, 2000 (Amounts in Thousands)

Major Types		
1. Aircraft	$	55,400
2. Missiles		1,500
3. Other Weapons Systems		143,800
Total	$	200,700

Narrative Statement

The figures presented above are estimated amounts from the Fiscal Year 2002 Budget Estimate Submission. The figures include amounts for Active Air Force, Air National Guard and Air Force Reserves. Other Weapons systems include: engines ($30.5 million), software ($65.5 million), other major end items ($27.7), non-working capital fund exchangeables ($19.8 million), and area base support ($.3 million).

The Depot Purchased Equipment Maintenance (DPEM) is a customer driven/decentralized process. The Air Logistic Centers established the initial requirements, based on force structure, engineering requirements, flying hours, historical data and customer demands. The Major Commands review the requirements through multiple review boards, the Maintenance Requirements Review Board, the Software Requirements Review Process, the Engine Requirements Review/Managers Conferences, and Comm-Electronics Support Review. Based on this information, the Logistics Support Review is conducted to validate and schedule requirements/funding for the budget.

Schedule, Part A DoD Intragovernmental Asset Balances Which Reflect Entity Amount with Other Federal Agencies	Treasury Index	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other:
Executive Office of the President, Defense Security Assistance Agency	11		681		
Department of Agriculture	12		310		
Department of Commerce	13		1,073		
Department of the Interior	14		1,444		
Department of Justice	15		7,820		
Department of the Navy, General Funds (GF)	17		29,227		
Department of Labor	16		32		
United States Postal Service	18		15		
Department of State	19		782		
Department of the Treasury	20	40,541,322	2,992	1,303	
Department of the Army, GF	21		23,249		15,107
Social Security Administration	28		6		
Department of Veterans Affairs	36		42		
General Service Administration	47		1,796		
National Science Foundation	49		913		
Federal Emergency Management Agency	58		76		
Environmental Protection Agency	68		359		
Department of Transportation	69		9,626		
Agency for International Development	72		25		
Department of Health and Human Services	75		1,948		
National Aeronautics and Space Administration	80		16,276		
Department of Energy	89		3,513		
Department of Education	91		120		
U.S. Army Corps of Engineers (Civil Works)	96		92		
Department of the Army, WCF	97-4930-001		374		443
Department of the Navy, WCF	97-4930-002		338		
Department of the Air Force, WCF	97-4930-003		17,163		10,844
Other Defense Organizations, GF	97		62,731		72,751
Other Defense Organizations, WCF	97-4930		101,619		86,148
Total of Seller Activity Disaggregated by Customer			284,642		185,293
Totals:		40,541,322	284,642	1,303	185,293

Schedule, Part B DoD Intragovernmenal Entity Liabilities Which Reflect Entity Amounts with Other Federal Agencies	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies:	Other:
Department of Commerce	13			(13)
Department of Justice	15			()
Department of the Navy, General Funds (GF)	17	(26,895)		(72,315)
Department of Labor	16			(316,693)
Department of the Treasury	20			(1,080,665)
Department of the Army, GF	21	(41,014)		(5,624)
Office of Personnel Management	24			(38,566)
Department of Transportation	69			(229)
National Aeronautics and Space Administration	80			(4,495)
Department of Energy	89			(2,457)
U.S. Army Corps of Engineers (Civil Works)	96	(115)		
Military Retirement Trust Fund	97-8097	(3,338)	109	
Department of the Army, WCF	97-4930-001	(797)		
Department of the Navy, WCF	97-4930-002	(27,294)		()
Department of the Air Force, WCF	97-4930-003	(611,927)		(18,580)
Other Defense Organizations, GF	97	(40,392)		(41,032)
Other Defense Organizations, WCF	97-4930	(246,129)		(131,023)
Total:		(997,902)	109	(1,711,691)

Schedule, Part C DoD Intragovernmenal Revenues and Related Costs with Other Federal Agencies	Treasury Index:	Earned Revenue:
Executive Office of the President, Defense Security Assistance Agency	11	(6,782)
Department of Agriculture	12	(1,099)
Department of Commerce	13	(10,763)
Department of the Interior	14	(1,902)
Department of Justice	15	(21,468)
Department of the Navy, General Funds (GF)	17	(110,877)
Department of Labor	16	(776)
United States Postal Service	18	(88)
Department of State	19	(7,930)
Department of the Treasury	20	(10,985)
Department of the Army, GF	21	(199,635)
Office of Personnel Management	24	(66)
Social Security Administration	28	(70)
Nuclear Regulatory Commission	31	(1)
Department of Veterans Affairs	36	(513)
General Service Administration	47	(8,764)
National Science Foundation	49	(68,943)
Federal Emergency Management Agency	58	(2)
Environmental Protection Agency	68	(714)
Department of Transportation	69	(88,623)
Agency for International Development	72	(31,640)
Department of Health and Human Services	75	(3,130)
National Aeronautics and Space Administration	80	(66,135)
Department of Energy	89	(45,300)
Department of Education	91	(1,690)
U.S. Army Corps of Engineers (Civil Works)	96	(563)
Department of the Army, WCF	97-4930-001	(1,860)
Department of the Navy, WCF	97-4930-002	(11,080)
Department of the Air Force, WCF	97-4930-003	(302,021)
Other Defense Organizations, GF	97	(802,912)
Other Defense Organizations, WCF	97-4930	(504,724)
Total:		(2,311,058)

Schedule, Part E DoD Intragovernmental Nonexchange Revenues	Treasury Index:	Non exchange Revenue	
		Transfers-in	Transfers-out
Other Defense Organizations, GF	97	(50,959)	
Other Defense Organizations, WCF	97-4930	(24,472)	
Total:		(75,431)	

General Funds

Audit Opinion

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

February 7, 2001

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

SUBJECT: Endorsement of the Disclaimer of Opinion on the FY 2000 Air Force General Fund Financial Statements (Project No. D2001FD-0051.03)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General, We delegated to the Air Force Audit Agency (AFAA) the audit of the FY 2000 Air Force General Fund financial statements. Summarized as follows are the AFAA disclaimer of opinion on the FY 2000 Air Force General Fund financial statements, report on internal controls, report on compliance with laws and regulations, and the results of our review of the AFAA audit. We endorse the disclaimer of opinion expressed by AFAA.

Disclaimer of Opinion. The AFAA disclaimer of opinion, dated February 7, 2001, on the FY 2000 Air Force General Fund financial statements states that AFAA was unable to express an opinion on the financial statements. We concur with the AFAA disclaimer of opinion that material uncertainties existed regarding the reasonableness of amounts reported on Air Force General Fund financial statements. Those uncertainties existed because of the following:

- The Defense Finance and Accounting Service (DFAS) has not fully implemented the U.S. Government Standard General Ledger chart of accounts, and the systems used to account for Air Force funds did not employ a transaction-driven ledger to capture financial management information.
- The Air Force did not comply with Federal accounting standards because it used latest acquisition price to value operating materials and supplies, and it did not do the following:
  - report gains and losses on disposal of general property, plant, and equipment;
  - recognize holding gains and losses related to revaluations of operating materials and supplies; and
  - fully use the consumption method of accounting for operating materials and supplies.
- The DFAS and Air Force could not accurately identify all intragovernmental transactions by customer.

- Canceled-year appropriation balances are not reliable for accounts receivable and payable.
- The Air Force estimated that it still needed to determine the historical cost, accumulated depreciation, and acquisition date for $662 million in General Fund equipment as of September 30, 2000.
- The extent of environmental cleanup liabilities was uncertain because of incomplete documentation for cleanup cost estimates.
- The AFAA could not reconcile or validate real property construction-in-progress of $1.5 billion, which was reported by Army Corps of Engineers and Naval Facilities Engineering Command. Further, associated real property data required for performing audit tests were not received in time to conduct the tests.
- The AFAA also could not confirm the ending obligated and unobligated balances on the Statement of Budgetary Resources for FY 1999; consequently, AFAA could not confirm the beginning balances on the FY 2000 statement.

Internal Controls. The AFAA tested internal controls but did not express a separate opinion because opining on internal controls was not one of its objectives. However, AFAA determined that internal controls did not provide reasonable assurance of achieving the internal control objectives described in the Office of Management and Budget Bulletin No. 01-02, October 16, 2000, "Audit Requirements for Federal Financial Statements." We concur in the following material weaknesses and reportable conditions that AFAA identified.

- DFAS Denver and DFAS field organizations processed accounting entries valued at over $1.6 billion were not adequately prepared or supported. Similar problems were disclosed in a DoD Inspector General review of FY 2000 DFAS Denver accounting entries.
- DoD Inspector General reviews performed during FYs 2000 and 2001 determined that system security controls for electronic commerce were inadequate and did not assure that electronically transmitted data were secure.
- Reporting of obligated balances was subject to material weaknesses because transaction records were not available and internal controls did not ensure proper matching of disbursements with related obligations.
- In addition to the AFAA audit work on internal controls, we reviewed accounting entries processed by DFAS Denver valued at over $406 billion. Our review determined that more than $320 billion were either improper or unsupported. Details on this review will be included in a separate report issued by the DoD Inspector General.

The Air Force and DFAS recognized many of the financial reporting weaknesses and reported them in their FY 2000 Annual Statements of Assurance. Details on the internal control weaknesses will be provided in separate AFAA reports.

Compliance With Laws and Regulations. We concur in the areas of noncompliance with laws and regulations that AFAA identified, which will be discussed in more detail in separate AFAA reports. Under the Federal Financial Management Improvement Act of 1996, the AFAA work showed that the financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

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

We reviewed the AFAA work on the FY 2000 Air Force General Fund financial statements from November 21, 2000, through February 7, 2001, in accordance with generally accepted Government auditing standards.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General for Auditing

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

7 February 2001

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

We were engaged to audit the accompanying Air Force General Fund financial statements for the fiscal year (FY) ended 30 September 2000. The annual financial statements consist of the Balance Sheet and the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. Preparing these financial statements is the responsibility of the Defense Finance and Accounting Service (DFAS) and Air Force management. This report presents our opinion on the financial statements, evaluation on the effectiveness of internal controls over financial reporting, and assessment of compliance with laws and regulations.

Opinion on the Financial Statements

We are unable to express, and we do not express, an opinion on the Air Force Balance Sheet or the Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. We were unable to obtain sufficient, competent evidential matter, or apply other auditing procedures, to satisfy ourselves as to the fairness of these statements under provisions of the *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements,* 16 October 2000. Material uncertainties exist regarding the reasonableness of amounts reported on these statements. Air Force management has disclosed many of these uncertainties in the financial statement notes as compliance or data problems. For example:

- The DFAS has not fully implemented the U.S. Government Standard General Ledger Chart of Accounts. Further, systems that account for Air Force funds do not reflect a true transaction-driven general ledger or provide a consolidated source of financial management information for either management or financial statement purposes. (Financial Statement Note 1)
- The Air Force use of latest acquisition cost to value operating materials and supplies does not comply with federal accounting standards.[1] For example, Air Force managers do not report gains and losses on disposal of general property, plant, and equipment, nor do they recognize holding gains and losses

[1] The American Institute of Certified Public Accountants recognizes the Statements of Federal Financial Accounting Standards issued by the Federal Accounting Standards Advisory Board as generally accepted accounting principles for federal government agencies.

related to operating materials and supplies inventory revaluation that occurs when latest acquisition costs are used. Further, the Air Force does not use the consumption method of accounting for operating materials and supplies. (Financial Statement Note 1)

- The DFAS and Air Force cannot accurately identify all intragovernmental transactions by customer. (Financial Statement Note 1)
- Canceled-year appropriation balances are not reliable for accounts receivable and payable. (Financial Statement Note 1)
- Air Force management officials estimated that, as of 30 September 2000, the Air Force still needed to determine historical cost, accumulated depreciation, and acquisition dates for general fund equipment valued at $662 million. (Financial Statement Note 10)

Our disclaimer is also based on our inability to reconcile or validate $1.5 billion of $2.3 billion in reported construction-in-progress because Army Corps of Engineers and Naval Facilities Engineering Command supporting documentation was not timely received and project costs were not identified to allow audit testing. Further, the Department of Defense (DoD) did not publish the FY 2000 Financial Management Improvement Plan in time for us to determine if known Air Force and DFAS financial system weaknesses were included and that remediation plans were established. We found material uncertainties related to environmental cleanup liabilities due to incomplete documentation for cleanup costs. Finally, we disclaim an opinion on the Statement of Budgetary Resources because our FY 1999 audit work could not confirm the ending FY 1999 obligated and unobligated balances on that statement. Consequently, we could not confirm the beginning balance for FY 2000. Efforts are ongoing to establish audited beginning period balances for FY 2001.

REQUIRED SUPPLEMENTARY INFORMATION

The Required Supplementary Information is not a required part of the principal financial statements, but is supplementary information required by OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, 16 October 1996. We applied limited audit procedures to the deferred maintenance portion of this information, but did not audit it and, therefore, express no opinion on the information.

The Required Supplementary Stewardship Information is also not a required part of the principal financial statements and, therefore, is not required to be audited. However, we selectively tested additions and deletions of national defense property, plant, and equipment, but express no opinion on the Required Supplementary Stewardship Information.

MANAGEMENT INITIATIVES

In FY 1998, the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) initiated strategies designed to produce auditable financial statements. The DFAS and Air Force continued in FY 2000 to improve financial data accuracy and reporting to support those initiatives. To illustrate:

- The Air Force and DFAS undertook extensive measures to improve the accuracy and auditability of budgetary data through periodic obligations reviews.
- The Air Force worked with DFAS to improve all accounting systems and "feeder" systems that provide financial data to accounting systems, and established an Integrated Process Team (IPT) comprised of functional subgroups responsible for corrective actions. Specifically, the IPT is working to correct deficiencies affecting the reporting accuracy of property, plant and equipment; deferred maintenance; environmental liabilities; inventory; munitions; and operating materials and supplies. Each of these accounts materially impacts financial statement balances.
- The DFAS initiated actions to integrate and modernize DFAS accounting systems into a comprehensive management system. The overall goal is to bring financial data under general ledger control, using the U.S. Government Standard General Ledger Chart of Accounts.
- During FY 1999, the Air Force fielded the Automated Civil Engineer System real property module at active Air Force bases and began reporting real property information to the general ledger for financial statement preparation. The Air National Guard implementation was completed in FY 2000. To ensure system data reliability, the DoD contracted to evaluate the accuracy of values reported in the Automated Civil Engineer System, and the General Accounting Office (GAO) is currently validating contract results. Further, the DoD contracted to validate the data and methodology used for populating the Air Force Equipment Management System. This contract was ongoing as of 30 September 2000.
- The Air Force continued to develop the Air Force Total Ownership Cost management information system in FY 2000. This system analyzes a myriad of standard Air Force system data to provide detailed cost information on weapon systems and infrastructure. The system is expected to become the single source of cost information for mid- to long-range analyses, as well as to directly support the Air Force Reduction in Total Ownership Cost program. Current efforts focus on capturing daily flying hour data and related costs.
- The Air Force continued efforts to implement the consumption method of accounting for operating materials and supplies and has determined that the moving average cost approach will be used in valuing these assets. In addition, an Air Force study is underway to identify a consumption accounting system, and follow-on implementation is expected to take approximately 2 years.
- The Air Force continued to identify assets not previously reported in the financial statements. For example, during FY 2000, contractors for the C-17 and C-130J aircraft reported operating materials

and supplies for the first time. Further, prior-period adjustments were made for $195 million in aircraft spare parts acquired from working capital funds and $1.5 billion in assets for U-2 aircraft.

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

Report on Internal Controls

Management is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that transactions are properly recorded, processed, and summarized to permit both financial statement preparation in accordance with federal accounting standards and safeguarding assets against loss from unauthorized acquisition, use, or disposal. Because of inherent limitations in any system of internal controls, errors or fraud may nevertheless occur and not be detected. Also, projecting internal control evaluation results to future periods is subject to the risk that procedures may become inadequate. In addition, our consideration of internal controls would not necessarily disclose all material weaknesses. A material weakness is a condition where controls do not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected on a timely basis by employees performing their assigned functions.

Although we accomplished internal control testing, our financial statement audit objectives did not include providing a separate internal control opinion. Accordingly, we do not express such an opinion. However, OMB Bulletin, *Audit Requirements for Federal Financial Statements*, requires that we describe reportable conditions and material weaknesses identified during the audit. Accordingly, the following paragraphs summarize material weaknesses and reportable conditions that existed in the design or operation of the internal control structure over financial reporting in effect at 30 September 2000 for the Air Force consolidated financial statements. These weaknesses, along with recommended remedial actions and time frames for corrective actions, are more fully described in supporting audit reports issued to Air Force and DFAS management.

SUPPORTING DOCUMENTATION

Based on our review of accounting entries processed by DFAS Denver (DFAS-DE) and journal vouchers prepared by DFAS field organizations (previously called operating locations), transactions valued at over $1.6 billion were not adequately prepared or were not properly supported. Primarily, the vouchers and supporting documentation did not (1) explain why the transactions were processed or (2) support the transaction amount. While the absence of adequate explanation and support creates an internal control issue, it does not necessarily mean that the entries were invalid or erroneous. (Air Force Audit Agency (AFAA) Project 01053009, *Revenue and Other Financing Sources – Journal Vouchers and Adjustments*) The DoD Inspector General reviewed additional DFAS-DE accounting transactions and reported similar preparation and support problems in Draft

Report of Audit D2001-0014, *Compilation of Fiscal Year 2000 Financial Statements for the Department of the Air Force and Other Defense Organizations.*

a. Departmental Adjustments and Entries. In reviews of 861 DFAS field organization adjustments and 16 DFAS-DE entries requiring journal vouchers (valued at $2.2 billion), 39 adjustments and 10 vouchered entries (valued at $1.3 billion) were not adequately prepared or supported.

b. Disbursement and Collection Journal Vouchers. In reviews of 296 DFAS field organization disbursement journal vouchers (valued at $1.9 billion) and 124 DFAS field organization collection journal vouchers (valued at $66 million), approximately 46 percent and 48 percent, respectively, were inadequate. Specifically, 136 disbursement vouchers (valued at $325 million) and 60 collection vouchers (valued at $22 million) were not adequately prepared or supported.

ELECTRONIC COMMERCE INITIATIVES

As part of a Deputy Secretary of Defense department-wide initiative to expand use of new technologies, improve business practices, and progress toward paperless contracting, the DFAS is participating in a series of electronic commerce initiatives to support DoD agencies. These initiatives include Electronic Document Access (shared documents across DoD using the Internet), Electronic Data Interchange (computer-to-computer exchange of business information in a standard format), and Electronic Document Management (imaging to eliminate reliance on paper versions of documents such as invoices). Because these initiatives do not entail use of hard-copy, original source documentation, the possibility of fraudulent or erroneous information entering accounting systems without being detected increases. During FYs 2000 and 2001, the DoD Inspector General reviewed the electronic commerce initiatives and concluded system security controls were insufficient and did not provide reasonable assurance that electronically transmitted data were secure. (DoDIG Report D-2001-029, *General Controls Over the Electronic Document Access System*, 27 December 2000; DoDIG Draft Report, D2000FG-0057.01, *Controls for the Electronic Data Interchange at the Defense Finance and Accounting Service Columbus*, and DoDIG Draft Report D2000FG-0057.02, *Controls Over Electronic Document Management*)

OBLIGATIONS

The process for reporting obligated balances was subject to material weaknesses because transaction records were unavailable and internal controls did not ensure proper matching of disbursements with related obligations. (AFAA Project 00053007, *Revenue and Other Financing Sources – Obligated Balances, Fiscal Year 2000*)

a. Obligations Incurred and Recoveries of Prior-Year Obligations. The DFAS accounting systems did not maintain individual transaction records of Air Force obligations incurred and recoveries of prior-year obligations. Rather, the systems calculated totals for these types of transactions based on net changes in obligated balances during the period. As a result, specific transaction records were not available for audit. Moreover, obligations incurred and recoveries of prior-year obligations included on the Statement of Budgetary Resources ($88.2 billion and $1.5 billion, respectively) could be materially misstated because DFAS accounting systems ignored individual increases and decreases that may have contributed to calculated net changes in obligations.

b. Matching Disbursements to Obligations. The DFAS internal controls did not ensure proper matching of disbursements with related obligations, resulting in $60.8 million of negative unliquidated obligations in the accounting systems. Through electronic commerce initiatives and prevalidation of disbursements, DFAS and Air Force officials continued work in FY 2000 to resolve this longstanding internal control issue. These efforts have reduced negative amounts more than 85 percent, from $434.2 million, since FY 1997.

PERFORMANCE MEASURES

Our limited review of internal controls related to performance measures, reported in the Management Discussion and Analysis section of the principal statements, did not identify any control weaknesses. Because we only obtained an understanding of the sources and controls related to performance measures, our work was not intended to determine whether controls were in place and working as designed. However, we concluded the information presented in the Management Discussion and Analysis section was materially consistent with the financial statements and footnotes.

Report on Compliance with Laws and Regulations

Air Force management is responsible for complying with applicable laws and regulations. Issues that should concern management include compliance with laws and regulations pertaining to the objectives of Air Force General Fund programs and the activities, functions, and manner in which programs and services are delivered. Material instances of non-compliance are failures to follow requirements or violations of prohibitions contained in laws or regulations that cause us to conclude the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause others to perceive the misstatements as significant.

As part of obtaining reasonable assurance that financial statements are free of material misstatement, we tested Air Force compliance with certain laws and regulations where noncompliance could have a direct and material effect on financial statement amounts, to include requirements contained in the Federal Financial Management Improvement Act (FFMIA) and Federal Managers' Financial Integrity Act (FMFIA). We concluded Air Force and DFAS systems and controls did not achieve full compliance with applicable laws and regulations that could have a direct and material effect on the FY 2000 Air Force financial statements. We considered noncompliance issues discussed below in forming our opinion on the financial statements. These weaknesses, along with recommended corrective actions and time frames for corrective actions, are described in cited supporting audit reports. Our audit objectives did not include providing a separate opinion on overall compliance with laws and regulations and, accordingly, we do not express such an opinion.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The FFMIA requires report disclosure on whether Air Force financial management systems substantially comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Our audit tests disclosed instances where Air Force or DFAS systems did not substantially comply with the three FFMIA requirements.

a. Federal Financial Management System Requirements. In FY 2000, we reported that general and application controls related to seven Air Force- and six DFAS-operated systems were deficient in at least one control category. The more significant weaknesses identified and the number of deficient systems were: access controls (9); completeness (7); documentation, audit trails, and transaction controls (6) each; separation of duties (5); and accreditation and configuration management (4 each). We also identified and recommended that the Air Force add two feeder systems, three budget systems, and a budget system under development to the inventory of critical financial systems. (AFAA Report of Audit 99054038, *General Fund Financial System Reviews*, 4 August 2000)

b. Federal Accounting Standards. Air Force management acknowledged in FY 2000 that its financial management systems did not allow substantial compliance with federal accounting standards. Specifically, financial statement footnotes disclosed the following areas of noncompliance. The Air Force did not (1) use the correct basis to value material and equipment; (2) recognize gains and losses on disposal of general property, plant, and equipment; (3) recognize holding gains and losses related to operating materials and supplies revaluation; or (4) use the consumption method of accounting for operating materials and supplies. Further, government furnished material and contractor acquired material in the possession of contractors was not included in operating materials and supplies. In addition, intragovernmental transactions could not be accurately identified by customer, trading partner data were not captured at the transaction level to facilitate trading partner aggregations and reconciliation of transactions, and canceled-year appropriation balances for accounts receivable and payable were not reliable. Additional, substantial departures from federal accounting standards that existed during FY 2000 are described below:

(1) Consumption Accounting. Air Force logistics organizations did not implement the consumption method of accounting to recognize all inventory and related property expenses, as required by Statement of Federal Financial Accounting Standard (SFFAS) Number 3, *Accounting for Inventory and Related Property*, 27 October 1993. This departure occurred because information systems were designed for inventory control and not for financial accounting. The Air Force reached agreement with OMB, GAO, and the DoD Inspector General to move in future years toward consumption accounting for operating materials and supplies and

determined that the moving average cost method will be used to value operating materials and supplies. As previously stated under Management Actions above, a study is underway to identify a consumption accounting system, and implementation is expected to take 2 years.

(2) Cost Accounting. The Air Force and DFAS were unable to prepare the Statement of Net Cost in full conformance with SFFAS Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* 31 July 1995. The Air Force was unable to accumulate costs for major programs based on performance measures identified under the requirements of the *Government Performance and Results Act of 1993* because the financial processes and systems in use were not designed to collect and report this type of cost information. Deviations from the standard occurred in the areas of reporting program costs and reporting by responsibility segments. The Air Force is reviewing available data and attempting to develop a cost reporting methodology. We advised the DoD Inspector General of this issue because it affects all DoD components.

(3) Statement of Budgetary Resources. The DFAS was unable to prepare the Statement of Budgetary Resources in full conformance with SFFAS Number 7, *Accounting for Revenue and Other Financing Sources,* 10 May 1996, As covered in the earlier section on internal controls, accounting system deficiencies did not provide or capture data needed to calculate obligations incurred and recoveries of prior year obligations in accordance with OMB Circular A-34, Instructions on Budget Execution, October 1999. The DFAS is developing an electronic database that will produce a monthly Supplemental Data Base Transfer Report that should provide obligations incurred and recoveries of prior-year obligation amounts. (AFAA Project 01053007, *Revenue and Other Financing Sources – Obligated Balances,* Fiscal Year 2000)

c. U.S. Government Standard General Ledger at the Transaction Level. As disclosed in the financial statement footnotes, DFAS managers had not implemented the U.S. Government Standard General Ledger. Lacking a transaction-driven general ledger process, managers extracted data from multiple automated and manual systems, many of which were outside the accounting and finance network, to derive account balances. This process significantly increased the potential for account balance misstatements.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

Air Force management acknowledged in the FY 2000 Statement of Assurance and in the Management Discussion and Analysis section of the financial statements that Air Force systems do not fully comply with federal financial management system requirements. The Annual Report on the Department of the Air Force Critical Financial Management Systems for Fiscal Year 2000, included in the Statement of Assurance, identified 42 systems that provide significant information to accounting systems producing financial reports. Both of these documents describe actions underway to bring systems into conformance with requirements. Because the FY 2000 DoD Financial Management Improvement Plan was not yet published, we could not confirm that all system deficiencies were reported, along with remediation plans. We did confirm, however, material control weaknesses disclosed in our audit reports were reported in Air Force, DFAS-DE, or the DFAS FY 2000 Statements of Assurance.

Objective, Scope, and Methodology

Management responsibilities are to:

- Prepare the annual financial statements in conformity with applicable accounting principles.
- Establish and maintain internal controls and systems to provide reasonable assurance that the broad control objectives of the FMFIA are met.
- Implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.
- Comply with other applicable laws and regulations.

AFAA responsibilities are to:

- Plan and perform an audit to obtain reasonable assurance about whether the principal financial statements are reliable (free of material misstatement) and presented fairly in conformity with OMB Bulletin 97-01, Form and Content of Agency Financial Statements, and applicable accounting principles.
- Obtain reasonable assurance about whether relevant management internal controls are in place and operating effectively.
- Test management compliance with selected provisions of laws and regulations and perform limited procedures to test the consistency of other information presented with the financial statements.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements.
- Assessed the accounting principles used and significant estimates made by management.
- Evaluated the overall presentation of the financial statements.
- Tested compliance with selected provisions of laws and regulations.
- Obtained an understanding of the design of internal controls, determined whether they had been placed in operation, assessed control risk, and obtained sufficient evidence from our tests to support our assessment of internal controls.

- Performed the procedures described in the Codification of Statements on Auditing Standards, AU Section 558, Required Supplementary Information, as they apply to the reporting of deferred maintenance.
- Selectively tested evidence supporting additions, deletions, and disclosures in the Required Supplementary Stewardship Information.
- Followed up on previously reported deficiencies.

In reviewing the Air Force consolidated financial statements, we evaluated internal controls to determine the reliability of financial and performance reporting related to the principal statements, accompanying footnotes, and the Overview of the Reporting Entity, including performance measures. In the area of financial reporting, we determined whether Air Force and DFAS personnel properly recorded, processed, and summarized transactions to permit financial statement preparation in accordance with federal accounting standards. We also (1) evaluated the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; (2) obtained an understanding of the design of internal controls; (3) determined whether the controls were in operation; (4) assessed control risk; and (5) tested the controls.

With respect to information in the Overview of the Reporting Entity, we determined whether the information presented was materially consistent with the information presented in the principal statements and accompanying footnotes. In the area of performance measures, we determined whether Air Force personnel properly recorded, processed, and summarized transactions and other data that support performance measures included in the overview accompanying the Air Force consolidated financial statements. We obtained an understanding of the design of internal controls related to the existence and completeness assertions.

We accomplished the audit at the Office of the Assistant Secretary of the Air Force, Financial Management and Comptroller; DFAS locations (DFAS centers and DFAS field organizations); HQ Air Force Materiel Command; and Air Force active duty units. Specific locations are listed in the individual audit reports. We completed audit fieldwork in December 2000 and provided a draft report to management in January 2001.

Summary of Prior Audit Coverage

The GAO, DoD Inspector General, and the AFAA have conducted multiple reviews related to financial management issues. Last year, we issued a disclaimer on the FY 1999 Air Force consolidated financial statements. The GAO reports can be accessed over the Internet at http://www.gao.gov; DoD Inspector General reports, at http://www.dodig.osd.mil; and AFAA reports, at http://www.afaa.hg.afmil.

We appreciate the cooperation and courtesies extended to our auditors.

JACKIE R. CRAWFORD
The Auditor General

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The U.S. Air Force Annual Financial Statement is available for viewing on the Internet at www.saffm.hq.af.mil under the FMP tab.