Defense Logistics Agency

Annual Financial Report

The Warfighters Logistics Combat Support Agency

Fiscal Year 2014
(unaudited)

BLANK PAGE

DEFENSE LOGISTICS AGENCY

DEFENSE WORKING CAPITAL FUND AND GENERAL FUND

FISCAL YEAR (FY) 2014 ANNUAL FINANCIAL REPORT

Table of Contents

BLANK PAGE

MESSAGE FROM THE DIRECTOR
OCTOBER 2014

At the Defense Logistics Agency (DLA), we are focused on providing first-class support to the Warfighter. Today, we are faced with significant fiscal and strategic challenges such as improving Warfighter support and reducing costs to support the Department of Defense's goals and objectives.

In support of the Department's national defense strategy, I introduced the "Big Ideas" initiative with focus on increasing effectiveness while decreasing costs. In 2014, the focus has been on staying the course to significantly improve support to our customers while dramatically reducing costs for operations and material. To date, DLA has realized about $4 billion in savings against the $13 billion commitment by 2019.

This year, DLA supported several evolving themes: a) support the troops in the current fight and pivot to reset, retrograde, and transition in Afghanistan, b) enhance Industrial & Platform Support and c) support Contingency and Humanitarian & Disaster Relief Support. Responding to these challenges requires support from every employee at DLA. We have engaged the workforce to share their ideas for creativity and innovation in transforming the Agency to increase savings, decrease customer costs, and improve processes.

Finally, I have set an aggressive goal to achieve full financial statement audit by September 30, 2015 -- two years in advance of the Department's goals. In 2014, DLA's Hire-to-Retire program achieved assertion three months earlier than planned, General Fund Statement of Budgetary Activity asserted in June and DLA Systems Defense Medical Logistics Standard Support – Wholesale Program, Employee Activity Guide for Labor Entry and Subsistence Total Order and Receipt Electronic System all received unqualified audit opinions.

DLA is steadfast to doing what is right and meeting the Department's challenges. We see this as an opportunity to sustain our existing Warfighter support, while embracing change through innovative means that are cost effective, efficient, and economical.

MARK HARNITCHEK
Vice Admiral, USN
Director

BLANK PAGE

DEFENSE LOGISTICS AGENCY

Consolidated Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2014 and 2013

BLANK PAGE

DESCRIPTION OF THE DEFENSE LOGISTICS AGENCY

The Defense Logistics Agency (DLA) is the Combat Logistics Support Agency of the Department of Defense (DoD) and reports to the Office of the Under Secretary of Defense (OUSD) for Acquisition, Technology and Logistics (AT&L) through the Deputy Under Secretary of Defense for Logistics and Materiel Readiness (L&MR). DLA's primary mission is to provide effective and efficient worldwide support to meet the needs of America's Armed Forces and other designated customers in times of peace, national emergency, and war, around the clock, around the world. Execution of the United States (U.S.) national defense strategy depends on DLA's support to feed, clothe, fuel, medicate and treat, and sustain our troops and many of our nation's allies. DLA supports DoD objectives and missions with involvement in the full range of military operations - from participation with multi-national forces engaged in large-scale combat operations, peacekeeping efforts, emergency support, and humanitarian assistance to the global war on terrorism.

DLA is responsible for sourcing and providing almost every consumable item used by our military forces worldwide. We manage nearly 5 million separate line items and disseminate logistics cataloging information for most items managed by DLA that support the DoD, other Federal Agencies, and U.S. international partners. These items include aviation, land and maritime parts for weapon systems, fuel, and critical troop–support items involving food, clothing and textiles, medical, industrial hardware and construction equipment and materiel.

Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution, reutilization or disposal of surplus military assets, managing the defense national stockpile of strategic materiel, providing catalogs and other logistics information, services and document automation and production services. In addition, DLA supports U.S. allies and friends through Foreign Military Sales and is a vital player in providing humanitarian support at home and abroad.

Our fiscal year (FY) 2014 initiatives are tied directly to enhancing mission support at the least possible cost by balancing effectiveness and efficiency to best meet warfighter's requirements in a period of increasing challenges and resource limitations.

DLA'S MISSION:

We are America's Combat Logistics Support Agency. We provide effective and efficient worldwide support to Warfighters and our other customers.

DLA'S VISION:

Warfighter-focused, globally responsive, fiscally responsible supply chain leadership.

DLA'S VALUES:

Our values provide the foundation for all of our actions. They are simple, straightforward and self-explanatory:

- ***Warfighter needs guide us***
- ***Integrity defines us***
- ***Diversity strengthens us***
- ***Excellence inspires us***

FIVE BIG IDEAS

In February 2012, we identified five principal strategic focus areas, or "Big Ideas" to achieve significant savings. In 2013, our ideas became actions that laid the groundwork for FY 2014 savings. Our priorities to significantly improve performance while dramatically reducing cost are outlined in the FY 2014 Director's Guidance. Some key achievements to date for each of the Big Ideas are:

- ***Improve Customer Service: "Delight our Customers".*** Improve customer service and measure performance by customer standards. We solicited customer input through the 2013 Senior Stakeholder Survey (Flag Officers/GS15s/O6s). The response rate for the survey was 34%, which is 1.7 times higher than the industry average (242 responses out of 706 distributed). Army, Navy and Marine Corps respondents rated DLA as "Very Good", while the Air Force rated the Agency as less than satisfactory in overall performance. The Service Teams worked with DLA Primary Level Field Activities (PLFAs) to create and implement Enterprise-wide Action Plans to improve satisfaction among all of the Services, with a special emphasis on the Air Force.

- ***Decrease Direct Material Costs: "Be Smart Buyers of the Right Stuff".*** Reduce material costs to achieve $9.7 billion in overall savings in six years. DLA's focus on identification and execution of major acquisitions to drive down direct materiel costs has resulted in more than $2.1 billion in savings across the supply chains. By leveraging initiatives across the Enterprise, DLA is ahead of FY 2014 targets for all four major levers – Reverse Auctions, Strategic Sourcing, Procurement System & Process Improvements, and Value Management savings.

- ***Decrease Operating Costs: "Improve Process and Productivity".*** Reduce all operating costs by 10% in six years.

DLA's Container Utilization efforts decreased costs for over-ocean (and over Northern Distribution Network) shipments through the use of well utilized 40-foot containers and 20-foot containers where applicable. DLA Distribution has an 85% aggregate Container Utilization goal and DLA Troop Support has an 80% per Container Utilization goal, with one exception where the goal is 85%. We saved taxpayer dollars by shipping fewer containers through the transportation pipeline. Since March 2012, DLA has a cumulative cost avoidance of $37.8 million, based on the Container Utilization efforts. DLA has also increased Consolidation and Containerization Point (CCP) limitations from 10,000 lbs/800 cube to 30,000 lbs/1500 cube for non-subsistence internal DLA Distribution Prime Vendors. Vendors are now able to push more items to the CCPs to assist DLA Distribution's Container Utilization efforts. Our Vendor Non-compliance efforts decreased costs on the front-end of the distribution process as materiel that is improperly packaged and/or labeled is received from vendors:

  - Overall efforts reduced the Supply Discrepancy Report average lead time to less than 90 days (excluding Counterfeit Materiel/Unauthorized Product Substitution).

  - Passive Radio Frequency Identification violations have decreased more than 50%.

  - Vendor misdirected shipments dropped by 60% while increasing visibility within the supply chains. Placed more emphasis on disposition of litigated assets, addressing packaging and labeling issues.

- ***Reduce Inventory and Infrastructure: "Clean out the Attic and Keep it Clean".*** Right size War Reserves, operational inventory, and infrastructure. Our initiatives seek to optimize DLA inventory levels/locations while reducing operating costs and fulfilling our customer requirements. Through economic analyses, we determined that it was viable to dispose of many items with no demand, reduced the retention levels, and stock the majority of our items at one depot location. These initiatives have allowed us to reduce inventory by $3.0 billion between March 2012 and September 2014. We will continue to review and make changes to our inventory posture as new warfighter requirements emerge.

- ***Achieve Audit Readiness: "Prove it".*** Demonstrate our commitment to transparency and accountability. Use audit readiness as a lever to identify and drive future improvement opportunities.

  DLA has accelerated its Audit Readiness timeline for all financial statements to the end of FY 2015. Our teams have spent the past year taking corrective actions to fix deficiencies that have been identified. Teams from all across the enterprise are fully engaged in documenting processes and identifying and testing hundreds of business process controls and systems controls for effectiveness. Across the agency, supervisors have worked together to document agency-wide standard operating procedures. Through data cleansing efforts, we have improved our financial statement accuracy by removing billions of dollars of old data to include aged Unliquidated Obligations, unfilled customer orders, accounts receivables, accounts payables, intransits, and legacy systems balances. Training for specific processes as well as on audit readiness has been developed and delivered throughout the year and Audit Readiness articles and blogs are published regularly to help the workforce understand what audit readiness is all about. DLA's senior leaders are actively leading the effort – the Stewardship Committee meets every three weeks to review progress and address issues; and the DLA Director receives monthly updates from the PLFA Commanders and J/D Code Enterprise Business Cycle Owners (the single senior civilian leader responsible for the business process) on their progress to achieve Audit Readiness within DLA. During FY 2014, the DLA Vice Director signed a Memorandum to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) asserting to Environmental Liabilities Continental U.S. (CONUS), General Fund Statement of Budgetary Activity, Travel, Plan to Stock, Internal Use Software, and General Equipment. We received an unmodified (clean) opinion on DLA civilian pay and modified opinions for Defense Address Addressing System and Defense Agency Initiative.

The five Big Ideas allow the Agency to present $13.1 billion in savings to the Department per the chart below:

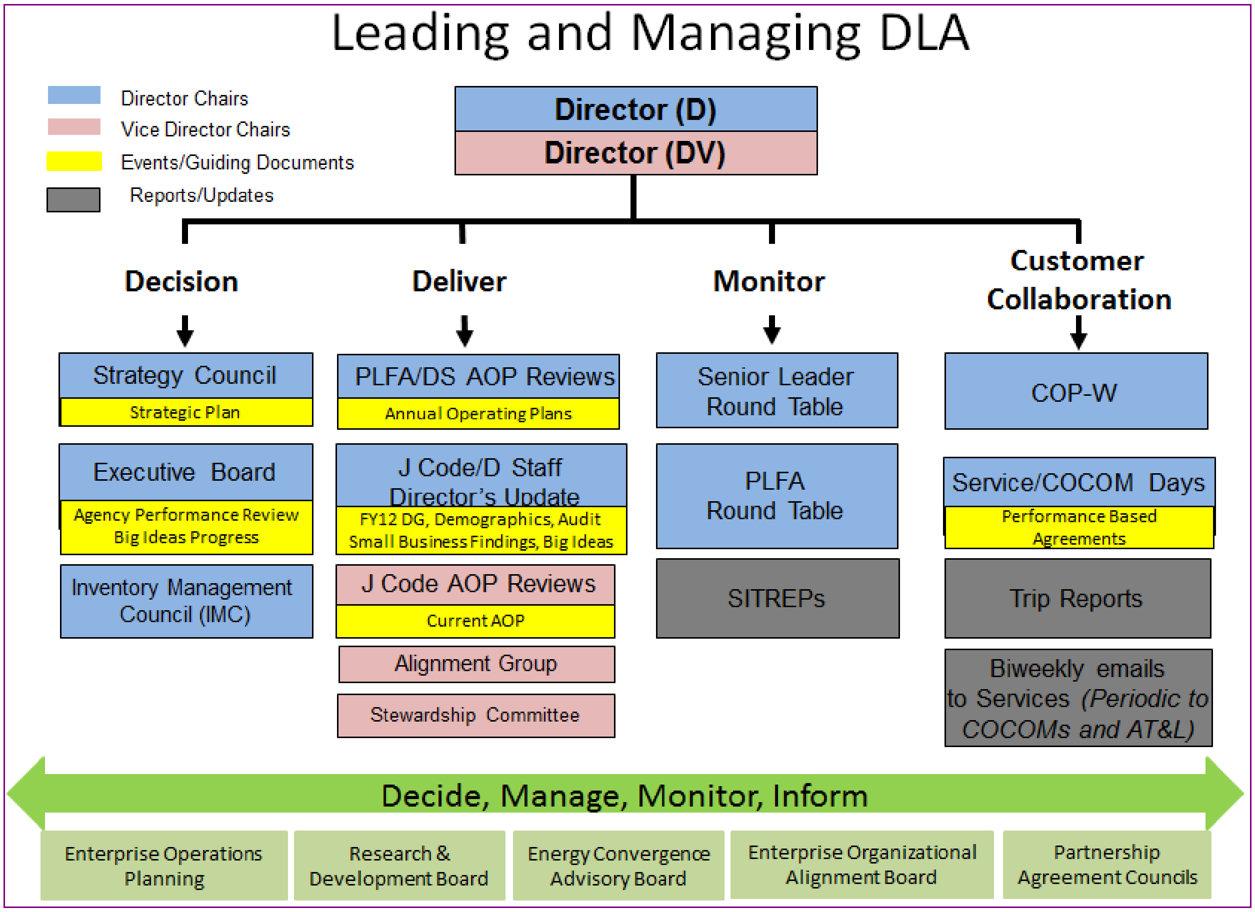
	FY14	FY15	FY16	FY17	FY18	FY19	TOTALS
OSD-C Guidance (DLA Supply Chain Only)							
Operating Cost ($ Millions)	$120	$145	$171	$199	$199	-	$834
Materiel Cost ($ Millions)	$416	$629	$850	$735	$745	-	$3,375
TOTAL	**$536**	**$774**	**$1,021**	**$934**	**$944**	**-**	**$4,209**
Additional Efficiencies (DLA Supply Chain & Energy)							
Operating Cost ($ Millions)	$543	$599	$646	$712	$851	$597	$3,948
Materiel Cost ($ Millions)	$327	$336	$256	$648	$1,001	$2,407	$4,975
TOTAL	**$870**	**$935**	**$902**	**$1,360**	**$1,852**	**$3,004**	**$8,923**
Total Savings							
Operating Cost ($ Millions)	$663	$744	$817	$911	$1,050	$597	$4,782
Materiel Cost ($ Millions)	$743	$965	$1,106	$1,383	$1,746	$2,407	$8,350
TOTAL	**$1,406**	**$1,709**	**$1,923**	**$2,294**	**$2,796**	**$3,004**	**$13,132**
Additional Savings (MEMO)							
SNO - Phase I (Materiel)	$57	$58	$0	$0	$0	$0	$115
SNO - Phase I (Operating)	$16	$20	$20	$20	$21	$18	$115
FDTPI (Materiel)	$34	$16	-$6	$0	-$5	$96	$135
Investments (Operating & Materiel)	$0	$0	$0	$0	$0	$63	$63
TOTAL	**$107**	**$94**	**$14**	**$20**	**$16**	**$177**	**$428**
TOTAL SAVINGS	**$1,406**	**$1,709**	**$1,923**	**$2,294**	**$2,796**	**$3,004**	**$13.1B**

"13-in-6"

PLFAs and staff have savings targets or goals over the years FY 2014 - FY 2018. The road map to achieving these Five Big Ideas is contained within their Agency Operating Plans.

STAYING THE COURSE

FY 2015 will clearly be another demanding year for DLA and all we serve. DLA must sustain our commitment of continuing to pursue initiatives that will contribute to improved warfighter support and greater fiscal responsibility. The primary forum for reporting quarterly progress is the Executive Board. Additionally, PLFA Annual Operating Plan Reviews allow Commanders to go into greater detail regarding their initiatives. In summary, progress against these goals is reported in the governance forums as depicted in the chart below:



ORGANIZATION

DLA maintains a global presence and accomplishes its mission with approximately 26,622 civilian personnel, 557 active duty military personnel, and 659 reserve personnel. Overall, our personnel operate a $40.0 billion global enterprise in 28 countries, managing nearly 5 million items in 8 supply chains and supporting more than 1,700 weapon systems. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. These efforts will enable the implementation of an enterprise business model that develops, deploys, and executes an improved set of corporate business processes and strategies. By organizing as a single, integrated business enterprise, DLA will be in a position to focus more efficiently and effectively on supporting the DoD's supply chain, enhancing the Armed Forces' readiness, and providing for the warfighter during contingency operations. DLA is proactive in serving warfighter mission needs and constantly meets face-to-face with customers to determine requirements and how best to fulfill them.

Our organizational structure is described below:

DLA's core functions are directed or supported by:

DLA Installation Support provides Enterprise-wide agency policy, program, and world-wide operational support in Environment; Safety and Occupational Health; Installation Management; Public Safety; Forms and Policy Management; and Morale, Welfare and Recreation for DLA. DLA Installation Support directs the administration of policy for centralized management and support service functions of the Agency; serves as a key enabler of logistics and information operations initiatives; and serves as the principal support service advisor to the Director, DLA for the DLA Installation Support Headquarters and Site Missions and Functions.

DLA Human Resources provides the full range of human resources services, both policy and operational, for DLA's civilian and active duty military employees. Policy support is provided by headquarter (HQ) DLA at Fort Belvoir, Virginia (VA), New Cumberland, Pennsylvania (PA), and Columbus, Ohio (OH). Operational services are conducted by DLA Human Resources offices located in Columbus, OH and New Cumberland, PA; a centralized military personnel support organization located at HQ DLA; and the DLA Training Center, which provides training support to DLA's workforce, located in Columbus, OH.

DLA Logistics Operations is responsible for the end-to-end supply chain management of DLA's eight supply chains, providing logistics and materiel process management policy, guidance, oversight, and monitoring of supply chain performance. DLA Logistics Operations is the principal strategic, operational, and tactical planner for DLA business operations, championing best business practices and value-added logistics solutions for the warfighter. It serves as the Agency's focal point for customer support, engaging customers around the world, understanding their needs, and translating those needs back to the rest of DLA to maximize the Agency's logistics capability. DLA Logistics Operations also has primary responsibility for DLA's Research and Development (R&D) program. In collaboration with the Military Services, DLA Logistics Operations is responsible for operational planning and execution oversight for the DLA Base Realignment and Closure (BRAC) implementation. Additionally, DLA Logistics Operations has oversight of the PBL Program Office that plans for and delivers a portfolio of integrated, affordable performance solutions for utilization by DLA customers.

DLA Strategic Plans and Policy is responsible for DLA's strategy development and management; Director's Guidance development and tracking; executive governance, including field review visits; enterprise process management; enterprise organizational alignment; risk assessment; process improvement; and internal controls. The Director, DLA Strategic Plans and Policy, communicates and executes the DLA Director's vision and senior leadership's strategies through the DLA Strategic Plan, as executed through the annual Director's Guidance. DLA Strategic Plans and Policy ensures horizontal integration and execution of strategy and overall DLA transformation by sponsoring cross-functional approaches and collaboration forums for enterprise decision-making and organizational alignment. They also manage all aspects of executive governance for the Director, including regular and special session executive boards and field review visits. As the proponent for Enterprise Process Management (EPM) and Enterprise Risk Management (ERM), DLA Strategic Plans and Policy develops the strategy, concept of operations, and policy for agency-wide deployment of EPM and ERM, Continuous Process Improvement and Managers' Internal Controls. DLA Strategic Plans and Policy also ensures Agency efficiency, effectiveness, and operational discipline by providing the leadership, policy, guidance, and program oversight of DLA Issuances, that include DLA Directives, Instructions, Regulations, and other directive-type management publications; DLA Forms; Enterprise Organizational Alignment that includes General Orders used to articulate Organizational Mission and Functions; and Service Provider Relationships that include Memorandums of Understanding, Memorandums of Agreement, and Inter-service Support Agreements.

DLA Information Operations is DLA's knowledge broker, and is responsible for providing comprehensive, best practice technological support to the DoD/DLA logistics community, resulting in the highest quality of information systems, efficient and economical computing, data management, electronic commerce, and telecommunication services. The Director, DLA Information Operations, is responsible for the development and compliance of information technology (IT) policy; the development of IT plans and strategies; and the establishment of IT standards, processes, and measurements. The Director of DLA Information Operations also serves as the Agency's Chief Information Officer. DLA Information Operations includes oversight of three field activities: the DLA Logistics Information Service, DLA Document Service, and DLA Transaction Services.

DLA Transaction Services is the DLA's and DoD's business transaction service provider, which provides transaction processing services for modern and legacy DoD systems including routing, translation, validation, delivery, aggregation/reporting services, and enables interoperability between otherwise disparate DoD networks and systems. DLA Transaction Services performs as an interoperable gateway for the DoD components, Government Activities and Foreign Military Sales countries, providing value-added network services and delivers data to the appropriate destination efficiently, expeditiously and accurately. DLA Transaction Services is responsible for the processing of on average 7-10 billion transactions annually. Transactions processed include logistics, supply, financial, procurement and transportation transactions supporting 300,000 global customers.

DLA Acquisition, DLA's full life-cycle contracting process owner, is responsible for planning, organizing, directing, and managing the procurement and contract administration functions for DLA acquisition in support of both internal operations and other supported activities. The Director, DLA Acquisition, also serves as the Agency's Component Acquisition Executive, the Senior Procurement Executive, and Head of the Agency, when required and unless otherwise prohibited by statute or regulation. DLA Acquisition includes oversight of the Joint Contingency Acquisition Support Office; the DLA Contracting Services Office Center of Excellence; the acquisition of major IT systems/programs; and the oversight of DLA Strategic Materials, which is a DLA field activity responsible for the administration and execution of the Department's Strategic and Critical Materials management policies and operations.

DLA Finance is led by the Agency's Chief Financial Officer who, as the financial management process owner, is the single spokesperson on financial management matters with external organizations. DLA Finance is responsible for designing, implementing, and executing standard financial processes across the Agency; determining financial services' resource requirements and performance targets; and establishing financial core competency requirements.

DLA Joint Reserve Force (JRF) supports DLA with trained, ready, and available reservists, of all reserve components, for contingency operations, peacetime contributory support, wartime surge support, and planning support. Further, the DLA JRF advises the DLA Director on the planning and application of Joint Reserve Forces support in accordance with (IAW) DoD and Military Service readiness and activation policies.

DEFENSE WORKING CAPITAL FUND

The primary source of financing for DLA operations is its revolving fund, the Defense-Wide Working Capital Fund (DWWCF). By design, the DWWCF fosters a demand-driven cost-based relationship between customers (primarily the military operating forces) and suppliers (the DoD's business-driven support organizations). In this capacity, the operations of a DWWCF activity are financed with the funded orders placed by its customers and satisfied by that activity. The expected outcome of this relationship is the effective and efficient delivery of goods and services. Since the financial structure of the DWWCF allows for the identification of the cost to produce goods and services and subsequently set prices, the customer can use both pricing and delivery information in its decision-making process. This visibility also enables DLA managers to use performance measures to ensure that the activities operate consistent with budget execution targets, address program requirements, and foster productivity improvements. Each fiscal year, DLA either obtains or returns funds to the Defense Working Capital Fund (DWCF) and other DoD appropriations.

During FY 2014, DLA executed a total budget program of approximately $43.8 billion; finished the year with total assets valued at approximately $23.1 billion and liabilities of $4.0 billion from the Consolidated Balance Sheet; and incurred a net operating loss of almost $1.9 billion on program costs of approximately $45.1 billion and revenues of nearly $40.8 billion from the Consolidated Statement of Net Cost.

The following activity groups are financed by customer orders and direct appropriations through the DWCF:

SUPPLY MANAGEMENT

Supply Management is the largest of our business areas. It makes up about 99% of assets, liabilities, revenues and costs on the financial statements. The Supply Chain Management group provides customer support through its management of logistical processes, materiel distribution, and disposition services within DoD.

- Logistical Processes (DLA Supply/Energy Chain Management): This includes centralized management of logistics catalog information, energy, repair parts, operating supply items, food, pharmaceuticals, medical and surgical supplies, construction materiel and equipment, and clothing and textiles and industrial hardware. These logistical processes occur within supply centers located in Columbus, OH; Richmond, VA; and Philadelphia, PA; and DLA Energy located at Fort Belvoir, VA. DLA Energy is an integral part of Supply Management as it continues to actively manage world-wide petroleum and aerospace energy supply chains as well as electricity, coal and natural gas commodities to support our customers' fuel and energy requirements. Also, responding to ever increasing research and interest, DLA Energy is furthering its expansion into providing energy solutions to include alternative fuels, renewable energy, utilities privatization and other installation energy conservation efforts.

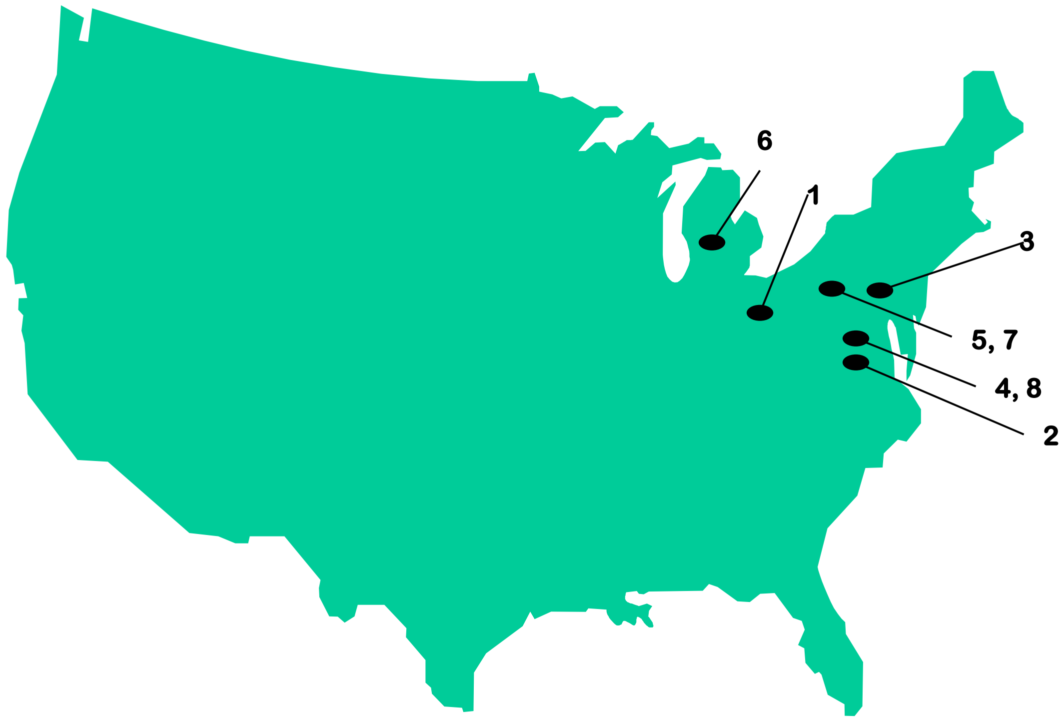
- Materiel Distribution (DLA Distribution): DLA Distribution provides a single, unified materiel distribution system for DoD. In addition to its primary mission of receiving, storing, and issuing materiel worldwide, distribution depots perform other functions that include - but are not limited to - providing refrigerated storage, cylinder refurbishment, tent repair, medical unit assemblies, kitting, and set assembly or disassembly. DLA Distribution's headquarters is located in New Cumberland, PA, and includes 26 subordinate distribution centers located throughout the United States, Europe, Southwest Asia, and the Pacific region.

- Disposition Services (DLA Disposition Services): DLA Disposition Services supports and coordinates the disposal of excess and surplus property within DoD. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non-profit organizations, state governments and local governments. Property not reused, transferred, or donated is either sold to the public on a competitive basis or disposed of in an environmentally safe manner. A critical part of the DLA Disposition Services mission is to arrange for the worldwide disposal of hazardous waste in compliance with laws and regulations. This group accomplishes its mission from a headquarters in Battle Creek, MI, and 138 DLA Disposition Services field sites located on military installations around the world.

DLA DOCUMENT SERVICES

The DLA Document Services activity group provides printing, duplicating, and document automation services within DoD. This mission encompasses the full range of automated services to include: document workflow conversion, electronic storage and output, and distribution of hard copy and digital information. The focus is on enabling customers to transition from hardcopy to digital/electronic-based document management. The worldwide mission of the activity group is managed through a headquarters in Mechanicsburg, PA, and a network of 144 production facilities.

DEFENSE LOGISTICS AGENCY ACTIVITY GROUP PRINCIPAL LOCATIONS



1. DLA Land and Maritime (Columbus, OH)
2. DLA Aviation (Richmond, VA)
3. DLA Troop Support (Philadelphia, PA)
4. DLA Energy (Fort Belvoir, VA)
5. DLA Distribution (New Cumberland, PA)
6. DLA Disposition Services (Battle Creek, MI)
7. DLA Document Services (Mechanicsburg, PA)
8. DLA Headquarters (Fort Belvoir, VA)

GENERAL FUND AND TRANSACTION FUND

The General Fund is appropriated by Congress, which also grants authority to the Office of the Secretary of Defense (OSD) and its components to obligate funds and pay for goods and services from their annual budgets. After funds are appropriated by Congress, apportioned by the Office of Management and Budget (OMB) and allotted by the OSD, the funds may be used to acquire goods and services. Both detail and summary-level financial reports are available to provide the information necessary to make suitable management decisions pertaining to the allocation and use of the General Fund.

In FY 2014, DLA received just over $1.0 billion in General Fund direct appropriations, which accounted for approximately 2% of DLA's total budget program. These appropriations included:

Operation and Maintenance (O&M); Research, Development, Testing & Evaluation (RDT&E); Military Construction (MILCON); Procurement Defense-Wide (PDW); and Family Housing O&M.

The DLA O&M appropriation, of approximately $456.2 million, funded two distinct groups: Other Logistics Services (OLS), $282.6 million, and Other Logistics Programs (OLP), $173.6 million. The OLS group included approximately 30 programs that were associated with the DLA logistics mission, such as: Price Comparability, Warstoppers, Hard Copy Map Function, Unemployment, Morale Welfare & Recreation, and Disaster Relief Blankets. In addition, OLS included programs added by either the DoD or Congress, such as Logistics Transformation. The OLP group consisted of approximately eight program offices for which DLA either provided administrative support or had program oversight, such as the Defense Property Accountability System, Department of Defense Enterprise Business Systems, and the Continuity of Operations Program.

The DLA RDT &E a ppropriation, approximately $233.5 million, primarily supported two types of efforts: Advanced Technology Development which includes DLA Logistics Research and Development Technology Demonstration program; Defense Microelectronics Activity program; and United States Transportation Command program, and Operational System Development, which includes DLA Industrial Preparedness Manufactured Technology program, and Logistics Support Activity program.

The DLA MILCON appropriation, nearly $341.2 million, funded major construction projects to replace, renovate, or build new facilities. Of these DLA facilities, approximately 58% are fuels infrastructure construction projects and 42% are associated with non-fuels projects at DLA's Primary Level Field Activities. The Army Corps of Engineers and Naval Facilities Engineering Command are the primary design and construction agents for this program.

The DLA Procurement appropriation, nearly $13.0 million, funded the purchase of mission essential equipment, including passenger carrying motor vehicles, telecommunications equipment, and automated data processing equipment.

The DLA Family Housing O&M appropriation, nearly $1.1 million, supported an inventory of 170 units located at the Distribution Depot Susquehanna, PA (140 units). DLA's Family Housing program consisted of routine operational requirements including management and utility costs, carpet and linoleum replacement, painting, and replacement of appliances.

The DLA General Fund finished FY 2014 with total assets valued at approximately $2.3 billion and liabilities of approximately $334.2 million from the Consolidated Balance Sheet.

DLA also manages DLA Strategic Materials, a separate revolving fund with over $800 million in total assets and $304.0 million in its Transaction Fund for FY 2014. The DLA Strategic Materials operates under the authority of the Strategic and Critical Materials Stock Piling Act (50

United States Code (U.S.C.) §98, et seq.). The Act provides that strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign or single sources of supply in times of national emergency. DLA Strategic Materials administers the acquisition, storage, management, and disposal of the stockpile. DLA Strategic Materials is not accounted for in these financial statements, but is embedded in the DoD Agency-wide financial statements.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements were prepared to report the financial position and results of operations of DLA, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements were prepared from DLA's books and records IAW the formats prescribed by the OMB, 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 were prepared IAW federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards differs from the auditor's application of the standards. In those situations, the DoD 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 United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

The Defense Finance and Accounting Service (DFAS) prepared the FY 2014 DLA financial statements from available automated finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes. Due to system deficiencies, there are limitations in collecting the data needed to prepare financial statements that comply with Federal standards. To prepare the financial statements, DFAS made numerous adjustments during the compilation process in an attempt to overcome these deficiencies. DLA has several corrective actions underway that are intended to improve the underlying systems, business processes, and internal controls.

SYSTEMS, CONTROLS AND AUDIT READINESS

The central theme of internal control is to identify risks to the achievement of DLA's mission, goals, objectives, and to do what is necessary to manage those risks. Internal controls are safeguards designed by management to provide reasonable assurance that the Agency protects its assets, ensures compliance with laws and regulations operates efficiently and effectively, and maintains the accuracy of financial and business data.

The DLA conducted an internal review of the effectiveness of the DLA internal controls over financial reporting for the Financial Improvement Plan (FIP) assessable units as identified to Financial Improvement and Audit Readiness (FIAR), OUSD(C). The May 2014 FIAR Plan Status Report provides information pertaining to the DLA the schedule for the DLA FIP assessable units that are currently under evaluation.

The assessment was conducted in compliance with Office of Management and Budget (OMB) Circular No. A-123, Appendix A, and the most recent version of the DoD FIAR Guidance, under the oversight of the DLA's Senior Assessment Team (SAT). The DLA SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, DLA is able to provide a qualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2014, were operating effectively with the exception of 17 material weaknesses.

During the fiscal year DLA identified one additional material weakness related to Inventory that will be remediated next year, and two additional material weaknesses related to Vendor Master which were remediated this year; other testing reaffirmed existing weaknesses. DLA closed one material weakness for Real Property that is awaiting Independent Public Accountant validation and cancelled the Energy Accounts Payable and Energy Documentation for edit checks and validation weakness due to the implementation of Energy Convergence.

The DLA Information Operations is in the process of conducting an internal review of the effectiveness of the DLA internal controls over financial systems. At this time, DLA is able to provide qualified assurance (with deficiencies noted) that the identified financial systems have achieved substantial compliance with the Federal Financial Management Improvement Act (FFMIA). For FY 2014, testing has been completed for 11 of the 12 Financial Systems (Core Financial and Financial Feeder Systems) using the Federal Information Systems Controls Audit Manual testing procedures. DLA Information Operations also used the DFAS Financial Management Systems Requirements Manual (The Blue Book) throughout FY 2013 and 2014 to assess the IT systems.

Based on its evaluation, DLA provided a qualified Statement of Assurance (SOA) that its financial reporting and system of internal controls, as of July 15, 2014, was operating effectively with the exception of the identified material weaknesses. DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner.

The DLA conducted an internal review of the effectiveness of the DLA internal controls over financial reporting for the assessable units identified in the May 2013 DoD FIAR Plan Status

Report and related financial systems. The May 2013 FIAR Plan Status Report provides information on DLA accomplishments and identifies the schedule for the DLA assessable units that are currently under evaluation.

The assessment was conducted in compliance with OMB Circular No. A-123, Appendix A, and the most recent version of the DoD FIAR Guidance, under the oversight of the DLA's SAT. Based on the results of this assessment, DLA provided a qualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2014, were operating effectively with the exception of 57 material weaknesses.

The DLA Information Operations conducted an internal review of the effectiveness of the DLA internal controls over financial systems. DLA provided qualified assurance that the DLA managed financial systems have achieved substantial compliance with the FFMIA and OMB Circular A-123. Testing has been completed or is in progress for the 12 Core Financial and Mixed Financial DLA and DoD Enterprise Business Systems, using the Federal Information Systems Controls Audit Manual (FISCAM) testing procedures. As of June 30, 2014, DLA has completed management assertions for the IT General Control environment for the following systems:

- Defense Address Addressing System (DAAS)
- Defense Agency Initiative (DAI)
- Defense Medical Logistics Standard Support – Wholesale (DMLSS-W)
- DOD Electronic Mall (DoD EMALL)
- Distribution Support System (DSS)
- Defense Travel System (DTS)
- Employee Activity Guide for Labor Entry (EAGLE)
- Electronic Business System (EBS)
- Electronic Document Access (EDA)
- Electronic Funds Distribution (EFD) (FFMIA Testing Only)
- Fuels Manager Defense (FMD)
- Subsistence Total Order and Receipt Electronic System (STORES)
- Wide Area Work Flow (WAWF)

The 12 DLA and DoD Enterprise Business Systems FISCAM dates:

Current Testing Status – FISCAM Overview (As of June 30, 2014) includes Information Technology General Controls and Application Security (AS) Business Process Controls:

DLA Systems:

System Name	Final FISCAM Assessment Report Date	Management Assurance Provided
DAAS / GEX	6/2/2014	Qualified
DMLSS-W	6/2/2014	Unqualified
DOD EMALL	6/2/2014	Qualified
DSS	4/11/2014	Qualified
EAGLE	6/6/2014	Unqualified
EBS	4/11/2014	Qualified
FMD	4/11/2014	Qualified
STORES	6/6/2014	Unqualified

*Blue indicates testing completion

Defense Business Systems:

System Name	Final FISCAM Assessment Report Date	Management Assurance Provided
DAI	Pending Completion 8/29/2014	Qualified
DTS	6/2/2014	Qualified
EDA	6/6/2014	Qualified
WAWF	6/6/2014	Qualified

* Blue indicates testing completion

The twelve DLA and DOD Enterprise Business Systems and FFMIA dates:

DLA Systems:

System Name	Final FFMIA Assessment Report Date	System Substantially Compliant?
DMLSS—W	-	Yes
ECAT	7/26/2013	Yes
MRA	7/26/2013	Yes
DSS	8/23/2013	Yes
EAGLE	7/26/2013	Yes
EBS	6/30/2014**	TBD
FMD	12/28/2013	TBD
STORES	7/26/2013	Yes

* Blue indicates testing completion
**Draft Report Date

Defense Business Systems:

System Name	Final FFMIA Assessment Report Date	System Substantially Compliant?
DAI	8/30/2013	TBD
DTS	6/28/2013	Yes
EFD	5/31/2013	TBD
WAWF	4/30/2013	Yes

* Blue indicates testing completion

The DLA established FIPs to address all identified weaknesses and provides monthly updates to OSD.

Based on its evaluation, DLA provided a qualified SOA that its financial reporting and system of internal controls, as of July 15, 2014, was operating effectively with the exception of the identified material weaknesses. DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner.

SYSTEMS

DLA continues to pursue longer-term efforts designed to fully assess its business and financial operations and to improve integration of systems and processes that are compliant with Federal system and accounting requirements. Much of the effort this year was focused on the continued movement of functionality into the DLA EBS and DSS from legacy systems.

- **EProcurement** is the DLA effort to consolidate and standardize multiple legacy acquisition systems/tools used across the enterprise into a single system/tool with the same SAP platform as EBS, DLA's Enterprise Resource Planning (ERP) system. EProcurement achieved Full Deployment in February 2014; successfully deploying to the Troop Support, DLA Contracting Services Office (DCSO), and Land and Maritime organizations. The functional sponsor competed the Post Implementation Review in August 2014.

- **Inventory Management and Stock Positioning (IMSP):** The first phase the IMSP Spiral 2 project was implemented in FY 2011. This is a BRAC initiative which expands DLA's mission to include providing all material required at the Naval Shipyards. As part of this effort, DLA will be ordering, storing and issuing material managed by other military services and General Services Administration (GSA). EBS and DSS capabilities have been greatly expanded to support this retail mission. Enhancements include: selling material in less than the standard military unit of issue, automated capability for using credit cards for the local purchase of material and the capability to submit excess returns to other sources of supply.

    - IMSP successfully deployed to Naval Fleet Readiness Centers – San Diego, CA (FRC-SW) in June 2013, Jacksonville, Florida (FL) (FRC-SE) in October 2013, and Cherry Point, North Carolina (NC) (FRC-E) in March 2014. The functional sponsor completed program closeout in May 2014.

- **First Destination Transportation and Packing Initiative (FDTPI):** The FDTPI project provides EBS with enhancements and modifications required to allow DLA the ability to recognize cost savings associated with the ability to establish procurement contracts with commercial packaging rather than military packaging and Free on Board (FOB) origin rather than FOB destination requirements.

Key Cost Savings:

- Commercial packaging contracts will reduce DLA costs by removing the additional packaging costs associated with military packaging and will decrease the DLA Distribution material inspection time for DLA Direct purchases.

- FOB origin contracts will reduce DLA costs by eliminating vendor shipping charges associated with FOB destination and allowing the scheduling and pickup of goods to-be handled by DLA Distribution.

- IMSP successfully deployed to DLA Aviation – San Diego, CA (FRC-SW) in June 2013; Jacksonville, FL in (FRC-SE) October 2013; and Cherry Point, NC (FRC-E) in June 2014.

FDTPI successfully completed Milestone C/Full Deployment Decision (MS-C/FDD) in October 2013 and Full Deployment in November 2013. Post Implementation Review and closeout activities were completed in December 2013.

- **DLA Depot Level Repairables – Army (DLA DLR Army):** This program enhances the Agency's ability to perform the depot-level reparable (DLR) procurement management transactions with the Army. It incorporates the Army's Depot Level Repairable procurement process into the existing EBS DLR process currently leveraged by the Marines. This covers Purchase Request (PR) creation/amendment/cancellation, PR status notifications, funds requests/confirmations, award and modification/cancellation data, Product Master creation/updates, Final Goods Receipt, and Final Payment Notification. The program successfully achieved Milestone B in January 2014 and the Test readiness Review in March 2014. Milestone C was achieved. The Full Deployment Decision remains in a To Be Determined status.

- **Energy Convergence (EC)** is DLA's effort to integrate its Energy mission into its Enterprise Architecture, standardizing processes and systems support across DLA-managed commodities and operations. A technology insertion to enable the coexistence of SAP Industry Solution Public Sector and SAP Industry Solution Oil & Gas was commissioned in 2007 and delivered in 2010. The solution was configured and deployed in November 2012. The EC effort has supported migration of DLA-managed petroleum commodities into the DLA Enterprise, and provided systems support for non-petroleum Energy commodities to include DLA initiatives such as EProcurement and Real Property.

  EC was initially deployed to non-petroleum commodities pending finalization of the configuration of the technology insertion enabling SAP Oil and Gas functionality within the DLA Enterprise. Upon delivery of the full configured solution, deployment to petroleum retail and transshipment sites and associated operations within defined geographic areas was initiated. The Release and Rollout summary schedule for Energy Convergence is as follows:

- Release 1 (November 2011): Aerospace and Natural Gas (acquisition and life-cycle commodity management support).
- Release 2 (November 2012): Integrated Oil and Gas/EBS solution.
- Petroleum Rollout 1 (June 2013): Alaska (retail and transshipment inventory sites, customer-direct operations, associated service contracts and ancillary processes (e.g. transportation)).
- Petroleum Rollout 2 (September 2013): West Coast and Hawaii petroleum.
- Petroleum Rollout 3 (December 2013): Remainder of CONUS, Puerto Rico, South America, Cuba, and Canada.
- Release 3 (January 2014): Additional reporting capabilities, additional interfaces.
- Petroleum Rollout 4 (February 2014): Pacific.
- Petroleum Rollout 5 (April 2014): Europe and Middle East.
- Petroleum Rollout 6 (November 2014): Card Programs, Into-Plane & Bunkers

MANAGEMENT CONTROLS

DLA's theme in FY 2014 was "Staying the Course." We faced significant fiscal and strategic challenges yet persevered with innovation and transformation. Our priorities to significantly improve performance while dramatically reducing cost remained as reported in FY 2013: decrease direct material costs, decrease operating costs, right size inventory, improve customer service, and achieve audit readiness.

Through the Stewardship Committee DLA provides unparalleled support to the warfighter through comprehensive stewardship of operational and financial resources and processes. The Stewardship Committee is proactively assessing threats, weaknesses, strengths and opportunities facing DLA's ability to assure effective and efficient business process outcomes. As part of DLA's risk mitigation strategy, DLA evaluates its system of internal controls to provide reasonable assurance that resources are being spent effectively and efficiently. Oversight of the evaluation of the system of internal controls is a shared responsibility by all of DLA, but specifically guidance is provided by DLA Strategic Plans and Policy (J5), DLA Finance (J8) and DLA Information Operations (J6). J5 has oversight of the implementation of the programs associated with Enterprise Risk Management (ERM) and DLA's Manager's Internal Control Program (MICP) while J8 directs DLA's Audit Readiness (AR) effort and J6 drive the alignment of the End-to-End framework with business system integration.

The E2E framework is the foundation for business process reengineering (BPR), which drives business improvement by optimizing Operational Activities (OAs), and encouraging interoperability, ensuring defense business systems support and enable cross functional business mission area processes. DLA established an end-to-end concept of operations that identified

Enterprise Business Cycle Owners (EBCOs) as the individuals designated as the accountable owners of E2E business cycles. Their responsibility is to ensure that processes are thoroughly documented, manual and automated internal controls identified and tested, service provider relationships identified and evaluated, and when required, remediation accomplished to improve the processes. They identify risks in their E2E cycle and ensure these inputs are included in the annual risk identification cycle (local risk profiles) of ERM process, monitored and reported quarterly. They are also responsible for asserting as to the audit readiness of their respective business cycles.

DLA merges OMB Circular A-123, Appendix A requirements with FIAR methodology per the CFO Act to evaluate operational compliance, financial reporting and financial system conformance. As part of the deliverables associated with OMB Circular A-123 reporting, DLA has combined the narrative, flow charts, and risk assessments into one document, called a Process Cycle Memorandum. Test plans are also combined into one document Test of Design/Test of Effectiveness. Results of internal control evaluations are reported in internal updates to the Stewardship Committee prior to assertion packages to OSD and as part of the annual SOA. Associated corrective action plans are reported as part of the Financial Improvement Plans to OSD and through an enterprise process management methodology internally to our Stewardship Committee as part of DLA's evaluation of risks and controls. In FY 2014 DLA was able to provide a qualified statement of assurance that internal controls were operating efficiently and effectively as of June 30, 2014.

PROGRESSING TOWARD AUDIT READINESS

Prior to February 2012, several DLA organizations were exclusively mission focused and concentrated on supporting the warfighter; however, the end-to-end processes were not centrally managed nor focused on the elements necessary to pass and sustain an audit. With the establishment of the Senior Executive Service (SES) led Audit Readiness Program Management Office in March 2012, this changed and, in comparison to prior years, DLA leadership, sponsorship, and commitment to audit readiness have improved significantly in FY 2014.

The OUSD(C) FIAR Directorate manages the DoD FIAR Plan and develops and issues the FIAR Guidance that defines DoD's goals, priorities, strategy, and methodology to achieve Audit Readiness. More specifically, the guidance describes the roles and responsibilities of reporting entities and service providers as well as the processes they should follow to achieve Audit Readiness. This guidance is updated periodically to ensure it remains current with DoD's priorities and aligns with all applicable Federal and Departmental financial management requirements.

DLA has established a rigorous enterprise Audit Readiness strategy, program infrastructure, and governance structure that is centrally managed and has full Agency support and clear accountabilities at the senior level. The governance includes an Audit Committee (AC), Stewardship Committee (SC), centralized Program Management Team (PMT), Stewardship

Working Group (SWG), Business Cycle Teams (BCTs) – each led by a senior executive at DLA Headquarters known as an EBCO, Technical Infrastructure & Architecture (TIA) Team, Field Command Teams (FCTs), and Program Management Teams (PMETs). DLA is executing all OUSD(C) FIAR phases: Discovery, Corrective Action, Assertion/Evaluation, Validation, and Audit.

The AC establishes enterprise-wide audit compliance requirements, and identifies and assists in overcoming obstacles to DLA support while undergoing an audit. When DLA achieves auditability, the committee's role will evolve into recommending and issuing guidance on accounting and auditing issues to sustain auditability going forward.

The SC serves primarily to support the EBCOs in fulfilling their stewardship responsibilities by identifying and removing obstacles to stewardship and by advising the AC on Audit Readiness-related processes and concerns. Collectively, the Stewardship Committee: makes recommendations and builds consensus to improve business operations; recommends resourcing to help ensure compliance with existing laws, regulations, policies, and standards; reviews enterprise-wide Audit Readiness milestones and progress; reviews Audit Readiness-related obstacles and significant risks to DLA, and decides on ways to overcome them; and sets the "tone at the top" for free and open exchange of Audit Readiness-related information.

The BCTs and FCTs work with the HQC EBCOs and Field Commanders to help ensure execution of their respective team's Audit Readiness responsibilities, and identify and resolve impediments to the Agency's auditability at each SWG meeting. The SWG provides the PMT a forum to communicate program guidance and assignment details to the BCT and FCT leads in a scheduled manner; advise on potential resolutions and strategize on implementation approaches to agreed-upon resolutions; and foster open Audit Readiness-related communication among the various teams.

The diagram below depicts the overall team structure of the Audit Readiness Program within the Agency. The primary categories are the PMT, BCTs, TIA, and FCTs.

PMT	**BCTs**	**TIA**	**FCTs**
• Enterprise Data • Service Provider • Work Plan Management / FIP Reporting • Corrective Action Plan (CAP) / System Change Request (SCR) • Human Performance Team • Audit Response & Sustainment (ARS) - Evidential Matter - Quality Assurance	• Procure to Pay (P2P) • Order to Cash (O2C) • Plan to Stock (P2S) • Budget to Execute (B2E) • Environmental Liabilities Management (ELM) • Hire to Retire (H2R) • Acquire to Retire (A2R) • General Fund Statement of Budgetary Resources (SBR) • Financial Reconciliations and Reporting (FR&R) - Fund Balance with Treasury (FBWT) - Record to Report (R2R) - Posting Logic - Journal Vouchers - Reconciliations	• DLA Systems • Defense Business Systems	• Troop Support • Land and Maritime • Aviation • Energy • Disposition Services • Distribution • DFAS • Strategic Materials • DLA Information Operations

DLA is establishing the skills and/or capabilities to train and transition the DLA workforce to prepare for audit and sustain these new practices into the future. DLA is making progress to put the necessary processes, controls, data, system, and human capital capabilities in place (including audit infrastructure, manual and system internal control testing protocols and management oversight) to help ensure Audit Readiness solutions can be sustained within the business processes throughout the Agency and with the Agency's service providers.

DLA's Audit Readiness Program has identified and established processes and controls to not only withstand an audit within the compressed timeline (FY 2015) for full enterprise-wide auditability, but also to provide financial management that is integrated with DLA's programs and operations. The readiness of DLA's key systems, particularly EBS, is a critical element of DLA achieving audit success, given the size, complexity, volume of transactions, geographic dispersion of its operations and highly automated business processes with its customers.

TIA focuses on all systems affecting auditability for DLA-owned systems and DLA-managed systems for customers and/or military services for which DLA plays a service provider/receiver role. From a systems perspective, certain system components are operated by DLA on behalf of other entities. As such, DLA must demonstrate adequately designed controls and ensure they are operating effectively for only the processes that have been outsourced to them.

DLA continues to demonstrate defendable, incremental, audit cycle success measures through each assertion. As each business area drives to their respective assertions in FYs 2013 - 2015, DLA continues to build the necessary capabilities by applying lessons learned and directly leveraging audit expertise into every area of the strategy implementation. DLA is working to transfer essential knowledge and provide hands-on employee training to quickly remediate gaps in the organization's functions and procedures. DLA will continue to work through the multiple phases of audit, while tackling the most significant material risk under assertion. Since the inception of the Audit Readiness Program, significant audit achievements continue beyond those listed below. However, these more visible successes continue to demonstrate DLA's measured progress:

Assessable Unit	Organization	BCT	Assertion Status
Appropriations Received	J8 Finance	Budget to Execute	Asserted June 2012
Fund Balance with Treasury (FBWT) Phase I and II	J8 Finance	FBWT	Asserted September 2012
Civilian Pay and Benefits	J1 Human Resources	Hire to Retire	Asserted June 2013
General Property (Capitalized Assets)	Installation Support	Acquire to Retire	Asserted September 2013
Real Property (Hosted Sites)	Installation Support	Acquire to Retire	Asserted September 2013
Environmental Liabilities Management (ELM) (CONUS)	Installation Support	ELM	Asserted November 2013
DLA Systems	J6 Information Operations	TIA	Asserted December 2013
DoD Systems	J6 Information Operations	TIA	Asserted December 2013
Travel	J1 Human Resources	Hire to Retire	Asserted March 2014

Statement of Budgetary Activity	J8 Finance	Financial Reconciliations and Reporting	Asserted June 2014
Inventory Existence and Completeness	J3 Logistics	Plan to Stock	Asserted September 2014
Internal Use Software	J6 Information Operations	IUS	Asserted September 2014
ELM (OCONUS)	Installation Support	ELM	Est. Assertion November 2014
Real Property (Non-Host Sites)	Installation Support	Acquire to Retire	Est. Assertion January 2015
DWCF, GF and DNSTF Financial Statements	J8 Finance	FR&R	Est. Assertion September 2015

IMPROPER PAYMENTS AND RECOVERY

Section 2(h) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law 111-204) requires agencies to conduct recovery audits for each program and activity that expends $1.0 million or more annually if conducting such audits would be cost-effective. DLA employed a contractor to perform payment recapture audits. Since FY 2005 our payment recapture audit contractor has reviewed $76.8 billion in payments for contracts procuring inventory for the Supply Chain Management Activity Group. As of the end of FY 2014, $2.5 million has been identified for recapture. Root causes for the $2.5 million in improper payments fell into the following categories: overpayments ($1.0 million or 42%), deductions not taken for lump sum decreases due to contract modification ($772.7 thousand or 31%), payments made for merchandise that had been returned to the contractor ($435.5 thousand or 18%), erroneous payments ($112.2 thousand or 5%), and duplicate payment of invoices ($100.0 thousand or 4%). As of September 30, 2014, 91 percent, or $2.2 million of the improper payments have been recovered. DLA continues to review its business processes to mitigate and resolve conditions giving rise to improper payments.

Reporting Categories	
Amount Subject to Review for Current Year Reporting*	$0
Actual Amount Reviewed and Reported - CY	$0
Overpayment Amounts Identified for Recovery - CY	$0
Amounts Recovered - CY	$0
Overpayment Amounts Identified for Recovery - Prior Years (PYs)	$3,420,355
Amounts Recovered PYs	$2,225,488
Cumulative Amounts Identified for Recovery (CY+PYs)	$2,454,768
Cumulative Amounts Recovered (CY+PYs)**	$2,225,488
Recovery Rate	90.7%

** The amount subject to review represents total payments processed in DLA's legacy system, the Standard Automated Materiel Management System (SAMMS), in FY 2005, FY 2006, and FY 2007; and payments related to DLA's non energy supply activities processed in DLA's ERP system, the Enterprise Business System (EBS), in FY 2007 through FY 2012. For FY 2014,had no recovery audit activity. Previous recovery audit work was limited to completion of processing any outstanding overpayments, apparent claims, vendor request notices or administration directly associated with such open actions that are pending completion. Our contractor, Connolly, Inc., was not authorized to perform work in the identification of any new recovery audit efforts.*

*** Includes penalty, interest, and administrative fees of $22,813.12*

OTHER ACCOMPANYING INFORMATION

DoD Executive Agent (EA):

An Executive Agent is defined as ***"The Head of a DoD Component to whom the Secretary of Defense or the Deputy Secretary of Defense has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, or administrative or other designated activities that involve two or more of the DoD Components."*** The Director of DLA is the designated DoD EA for Subsistence (Class I), Bulk Petroleum (Class III B), Construction and Barrier Materiel (Class IV) and Medical Materiel (Class VIII).

The DLA has also been designated per Department of Defense Instruction 4140.63, Management of DoD Clothing and Textiles (C&T), as the integration agent for DoD C&T (Class II). Specifically, ***"The pr ocurement, management, and s upply of c lothing an d t extiles materiel shall be c oordinated an d pe rformed on a D oD-wide bas is by t he Director, D LA IAW applicable law and DoD policy."***

The following are key activities and accomplishments of DLA, in collaboration with the Office of the Secretary of Defense, Joint Staff, Military Services, Combatant Commands, and other DoD Components, in fulfilling DoD EA, and C&T integration roles and responsibilities:

DLA Troop Support: Provided Mission Analysis, Course of Action Development and Logistics Supportability Analysis for Combatant Command Operational Plans.

Class I (Subsistence):

- Continued to engage the Combatant Commands to optimize sustainment and planning.

- Continued to participate in the joint planning process providing review and input on multiple plans in support of Pacific Command (PACOM), European Command (EUCOM), Northern Command (NORTHCOM), and Central Command (CENTCOM). Provided Logistics Sustainability Analyses to communicate DLA capabilities to the Combatant Commands (COCOMs).

- Coordinated with the Subsistence Prime Vendors (SPV) carriers, United States Forces – Afghanistan and U.S. Transportation Command (USTRANSCOM) to overcome difficulties transiting the Northern Distribution Network. SPV and Operational Rations support were maintained through a variety of strategies including multi-modal bookings through Riga, Latvia, Baku, Azerbaijan, Iskenderun, Turkey, the Central Asian States via Aktau, Kazakhstan, and Dubai, United Arab Emirates (UAE).

- Coordinated with the U.S. Transportation Command to implement the one-time-offer OTO model which ensures competitive rates for airlifts of Operational Rations from forward stocking platform in the UAE to Afghanistan through a bidding process for subsistence prime vendors' carriers.

- A phased roll-out approach and DLA augmentation team preceded the successful transition of customer support to the new subsistence prime vendor (SPV) in Afghanistan.

- In addition to assuming supply chain management and order fulfillment, the SPV has begun planning for drawdown of combined military and civilian end-strength of about 22,500 personnel while maintaining on-going support for the current larger population.

- Continued to support regional economic growth of Afghanistan and the Central Asian States through procurement of local market ready goods by the SPV.

- Continued to support the Warfighter at forward locations through deployments to Afghanistan.

- Continued to provide subsistence support to the Department of State's diplomatic mission in Iraq through December 2014.

- Continued to support non-traditional customers through sales of Commercial Meals Ready-to-eat (MRE) and Humanitarian Daily Rations to Federal Emergency Management Agency (FEMA) for stocking their distribution centers. Also, expanded support of the United States Department of Agriculture's School Lunch Program through sales of Fresh Fruits and Vegetables has been extended to 48 out of 50 states.

- Enhanced support to warfighters and customers by adding dog food to catalogs for military working dogs as well as fire rescue dogs working in the U.S. Forest Service.

- Supplied over 41,000 cases of MREs in support of wildfire suppression efforts in the Western U.S.

- Continued participation and planning using the New Madrid fault line scenario to test the limits of DLA's ability to provide subsistence support following a devastating natural disaster.

- Expanded the SPV platform in Panama for support the U.S. Navy and U.S. Coast Guard.

- Continued to modify the Enhanced Status of Resources and Training System (ESORTS) unit effectiveness tracking standards for use in the Defense Readiness Reporting System (DRRS) to assess additional mission essential task list capabilities in conjunction with new Operations Plan reviews.

- Managed all Services' War Reserve requirements at locations worldwide as agreed upon in Performance Based Agreements (PBAs). Renewed the governing War Reserve PBA with U.S. Air Force.

- Coordinated with the Department of the Army G4 on critical changes to the quantity and locations of Army War Reserve CL I materiel. This coordination culminated in a new PBA and stock realignment IAW the new Army requirements.

- Continued to seek cost saving measures for the Services through innovative acquisition strategies. Issued a Central Procurement for chicken and beef.

- Formed and implemented an Audit Readiness plan IAW the DoD wide initiative.

- Coordinated monthly teleconferences and semi-annual meetings of the Joint Subsistence Policy Board which consists of Service representatives and other partners to discuss and resolve subsistence related issues.

Class II (Clothing and Textiles):

- Updated existing Charter and policies in response to Congressional directives per National Defense Authorization Act FY 2014 regarding standardization initiatives to the Joint Clothing and Textile Governance Board.
    - Provided updates and staffed C&T supply chain regulations for approval.
- Drafted and coordinated an analysis of Class II's capabilities to provide humanitarian response to FEMA's New Madrid Seismic Zone scenario.
    - Participated in a Table Top Briefing Event with our key Industry Suppliers and Senior Leaders.
- Provided Logistics Sustainability Analyses on NORTHCOM and CENTCOM OPlans reflecting DLA's abilities to support the COCOM under specified mission circumstances.
- Provided detailed equipment availability of excess items for diplomatic support to Tunisia.
- Processed over $367,000 in MIPR transactions for Class II materiel on behalf of COCOMs.
- Provided reachback support for EXERCISES Ardent Sentry 2014 and Vibrant Response 2014; and Operation Damayan.
- Accomplished monthly ESORTS Reports based on supply chain analysis of readiness factors.
- Monitored C&T Feedback e-mail box and fielded over 60 queries from customers on our supply chain processes, policy, and general information.
- Coordinated U.S. Navy-DLA Master Performance Based Agreement which establishes metrics/goals for support of Navy Weapon Systems.
- Conducted Annual Mission Essential Task Review.

Class IV (Construction and Equipment):

- Went live with EProcurement in support of the DLA effort to consolidate and standardize multiple legacy acquisition systems/tools used across the enterprise into a single system/tool with the same SAP platform as EBS, DLA's ERP system.

- Supported the various rollouts for the Inventory Management and Stock Positioning (IMSP) phases (Spiral 1 - DLA Aviation, Spiral 2 - DLA Maritime).

- Continued to engage the COCOMs to optimize sustainment and planning through constant dialogue with JLOC planners via the Command Control Center and re-coding the limited number of Troop Support Planners (TSPs) to strategic COCOMs to provide the warfighters with access to supply chain subject matter expertise.

- Actively engaged the warfighter via DLA Support Team members to gain knowledge and insights into their needs/requirements in order to provide improved support.

- Reviewed all open CL IV requisitions with the USFOR-A Sustainment Brigade's RIC-GEO to close out all delivered CL IV material and give the Warfighter true visibility of incoming stock levels.

- Continued the Class IV sourcing options in the Central Asian States (CAS) to maximize material availability and support the CENTCOM Commander's Policy Letter 40 initiative. Through this program, Construction and Equipment (C&E) purchased in excess of $100.0 million worth of construction material for its customers from the region.

- Maintained active dialogue with Troop Support personnel deployed to Uzbekistan and Kazakhstan to act as liaison between C&E Maintenance, Repair and Operations Prime Vendor partners and local sources for construction material.

- Maintained operational control of the Army Contracting Command - Rock Island transportation contract overseeing the delivery of millions of dollars of construction material.

- Continually improved and utilized an intricate/detailed In-Transit-Visibility database with strategic customers, allowing them to receive "real-time" information on shipments of Class IV materials originating in the CAS region.

- Initiated key partnerships with U.S. Government personnel located in Djibouti to start the local purchasing process in support of Africa Command (AFRICOM).

- Hosted strategic Prime Vendor partners to discuss the New Madrid natural disaster (earthquake) scenario. Reviewed the individual COOP for each of the Prime Vendors.

- Continued partnership efforts with the corporate level of FEMA through exercises and visits to the FEMA headquarters for collaboration and professional development.

- Constant review of Logistical Supportability Analysis matrices based off of COCOM Operation Plans. TSPs reviewed for process shortfalls that can trigger Class IV shortfalls. Finished a comprehensive CL IV process flow in support of the DLA Headquarter's Logistics Supportability Analysis Continuous Improvement Process effort.

- Collaborated with the DLA Headquarter's Executive Agent (EA) office to use DLA's CL IV EA designation as a strategic link into the COCOM planning processes. This inclusion will drastically improve CL IV forecasting abilities and allow for C&E to remain one step in front of upcoming actions.

- Continued the reimbursement process with ARCENT for transportation fees expended moving CL IV items from the CAS for use by US Forces in Afghanistan.

Class VIII (Medical Materiel)

- DLA Troop Support Medical continued to engage the COCOMs in the planning and execution of Medical Logistics Operations throughout their Area of Operations. Continued to participate in the joint planning process providing review and input on multiple plans in support of PACOM, AFRICOM, EUCOM, NORTHCOM and CENTCOM. Provided Logistics Sustainability Analyses for COCOMs when required. Of particular note this fiscal year:

    - Participated in the monthly NORTHCOM Class VIII Work Group, which covers the Class VIII concept of support for the NORTHCOM AOR with emphasis on Defense Support of Civil Authorities. Attended the NORTHCOM Class VIII Stakeholders Workshop, which reviewed critical CONPLANs and Class VIII support for several different Homeland Defense scenarios. DLA Troop Support integration into this forum allowed us to provide vital information on our capabilities for NORTHCOM to use in their planning.

    - Participated in several CENTCOM Work Groups to include Afghanistan draw down planning, Authorized Stockage List Work Group, and monthly logistics synchronization Work Group. Assisted CENTCOM in developing the future concept of support for Class VIII throughout its region.

- The Defense Medical Logistics Enterprise (DMLE) continues to invest in the Functional Executive Agent Medical Support (FEAMS) Medical Contingency Requirements Workflow (MCRW) System. The ultimate goal of this System is to provide:

    - Clinically-driven medical materiel item estimates (requirements).

    - Sourcing analyses for commercially procurable materiel (e.g. gap and cost reporting).

    - Collaborative tools (workflow) for planners, developers, logisticians and clinicians to manage gaps, availability, and costs for medical materiel support to contingency operations.

- During 2014, FEAMS worked with NORTHCOM, ARNORTH, and Joint Task Force Civil Support (JTFCS) to enable MCRW Release 2 to improve the quality and accuracy of the system's medical materiel forecasting capability and expand its utility to service functional customers. Specifically, in Release 2, FEAMS enabled the following new capabilities:

    - Ability to import / add special computation/assemblage items to the Materiel Item List (MIE).

    - MIE weight and cube reports by day and Role of Care (ROC).

    - Utility for Service customers to import patient stream data.

    - National Stock Number import capability and sourcing analysis.

    - Functionality in MCRW to generate output using prescribed peripheral systems format.

    To date, FEAMS completed the first two of four planned releases that will operationalize the development of materiel support requirements directly from scenario-based clinical demands and deliver a 7 to 1 return on investment through increased forecasting accuracy.

    - DLA Troop Support Medical continued to leverage the Warstopper Program to meet the surge and sustainment requirements of the Military Services. Through utilization of Warstopper funds, the DLA Troop Support Medical was able to gain immediate access to $300.0 million of critical medical materiel with a $29.0 million investment, approximately a 10 to 1 return on investment. This continuing program represents a very efficient and effective utilization of programmed funds.

    - DLA Troop Support Medical, in coordination with Defense Health Agency and the Military Services, continues to aggressively execute the cost reduction plans outlined in

OSD Cost Reduction Initiative. These actions include state of the art Information Management tools and Subject Matter Expert advice to assist in making informed clinical decisions on medical product selections to reduce delivered costs, of both pharmaceuticals and medical/surgical items, while improving logistics services. Examples include redirecting manual requisitions to E-Commerce processes, purchasing less expensive generic products, and compelling vendors to abide by the terms of the Federal Supply Schedule contracts. Cumulative realized cost reductions to date (FY 2012 through FY 2014) total $224.7 million, or 88.4% of their $254.1 million goal.

- DLA continues to engage with the DoD Class VIII key stakeholders as evidenced by the following:

    - DLA hosted an internally focused strategic dialogue between the DLA and DHA Directors on May 2014 seeking "Big Ideas" to engender a more integrated health care delivery system by embracing best practices and promoting sustained innovation.

    - DLA hosted an external focused "Captains of Industry" Summit between the DHA, DoD Surgeons and Industry Partners on June 2014 socializing "five" high level medical cost reduction drivers. Financial analysis indicates the Class VIII Supply Chain will achieve an astounding $3.6 Billion cost reduction from FY 2015 - 2024 by negotiating substantially lower distribution fees with both Medical Surgical and Pharmacy Prime Vendors; exploiting the velocity of award of DoD National committed volume contracts, seek global Ecommerce solutions to eliminate local driven Medical Treatment Facility government purchase card expenses; benchmarking commercial pricing to facilitate improved medical standardization; and achieving substantially lower TRICARE Mail Order Pharmacy costs from the vendor base by exploiting generics and negotiating decreased distribution fees.

ADDITIONAL INITIATIVES AND ACCOMPLISHMENTS FOR FISCAL YEAR 2014

Joint Supply (JS) - Joint Integrating Concept (JIC): The JS-JIC is a future concept (8 to 20 years out) that helps guide the development of capabilities for the future Joint Force. DLA and the Joint Staff Logistics (J4) have co-led collaborative development of the JS-JIC with participants from the OSD, Joint Staff, Military Services, Combatant Commands, other DoD Components, other government agencies, and non-governmental organizations. This combined effort has culminated in the Joint Requirements Oversight Council's approval of the JS-JIC, and their endorsement to initiate the first capabilities-based assessment (CBA) of one of the JS-JIC's five recommended capabilities - "Operate the Joint Supply Enterprise."

The JS-JIC describes the joint supply framework and methods used to develop that framework that include the following: (1) defining the desired joint supply process outcomes; (2) identifying key stakeholders and focal point responsibility for achieving those outcomes; and (3) defining the future joint supply processes, shared information, and decision support architectures.

After conducting two DoD war games, Needs Assessment Phase to identify gaps that currently prevent DoD from achieving Perfect Order Fulfillment and Sustained Joint Supply Readiness in support of our Joint Forces Commanders, the Final JS-JIC CBA Solutions Recommendations has been completed. The final report that identified solutions to gaps resulting in either a Doctrine, Organizational, Training, Materiel, Leadership and Education, Personnel and Facilities – Policy Change Request (PCR) or Initial Capabilities Document (ICD) was completed and forwarded to JS J4 in June 2012. The Joint Logistics Board (JLB) approved the JS-JIC CBA findings in January 2013. This completed the CBA requirements of the JS-JIC CBA. The JLB is now initiating follow-on actions which will ultimately lead to implementation of numerous recommendations identified in the JS-JIC CBA Final Report.

Chemical / Hazardous Item Management: J3's Chemical Management staff continues to implement the Hazardous Material Management System (HMMS) at Navy sites. By September 2014, HMMS will be operational at four Navy Shipyards impacted by the 2005 Base Realignment and Closure. Also, by mid-2014, DLA will assume management and oversight of the Joint Environmental Material Management Service on two Marine Corps sites located in Japan. Additionally, efforts are underway for the Air Force to transfer HMMS program management responsibilities to DLA. Combined, all these separate, but related initiatives further bolster DLA's position as a DoD leader in the realm of chemical and hazardous inventory management.

Supply Alignment Initiative: The Supply Alignment Initiative applies the Economic Movement Quantity (EMQ) model to all Outside the Continental United States (OCONUS) depots to assist in determining the Planned Stockage List (PSL). The goal is to reduce the total transportation costs to DoD without jeopardizing Logistics Response Time (LRT) to units assigned to individual OCONUS depots. The model identifies the optimal tradeoff between the cost of increased inventory investment (and associated material handling costs) with lower air Over Ocean Transportation costs, while simultaneously maintaining or reducing LRT. The EMQ model considers various costs and operational factors along with constraints to recommend whether to forward stock an item or add it to the PSL. If the total costs to stock at the Forward Distribution Point and replenish via surface-ocean is lower, the model recommends the item for forward positioning. Conversely, if it is less expensive to not forward stock the item, the item is kept at the Strategic Distribution Platform and shipped via air when required. The PSL is reviewed by the Services and COCOMs to identify any additional Service requested items for inclusion in the PSL to support readiness. The list is then approved by the Principles and/or their representatives from the DLA Enterprise, Services, COCOMs, USTRANSCOM, and GSA.

Planning Optimization: The objective of the Planning Optimization program is to conduct an examination of the current DLA improvements which would support the operational readiness requirements effectively and economically in peace and wartime. It seeks to optimize the number, location, and function of distribution/disposition facilities and transportation resources to reduce operating costs, balance efficiency and effectiveness, provide agility and performance to support the Customer. The goal of performing system change request to make the components work together so that the supply chain can perform the mission-critical operations for which it was intended--at an optimized performance level.

BRAC 2005 Supply and Storage Implementation: The OSD designated DLA as the business manager responsible for implementing, in coordination with the Military Services, the three BRAC 2005 Supply and Storage recommendations:

- Depot-Level Reparable (DLR) Procurement Management Consolidation (including Consumable Item Transfer (CIT)).
- Supply, Storage, and Distribution Management Reconfiguration.
- Commodity Management Privatization.

- **Comprehensive Materiel Response Plan (CMRP):** The Vice Chairman, Joint Chiefs of Staff designated DLA as co-lead with USTRANSCOM to develop a comprehensive plan for the DoD materiel positioning and distribution to support the full range of military activities with the goal of transforming the existing global distribution construct. DLA and the TRANSCOM have co-led collaborative development of the CMRP with participants from the OSD, Joint Staff, Military Services, Combatant Commands, other DoD Components, and other government agencies. The CMRP effort will further align with the Joint Supply - Joint Integrating Concept, capitalize on DLA supply chain expertise, and leverage initiatives such as the Strategic Network Optimization, Stock Positioning, and the Enterprise Business System.

- **(J6-J88) Enterprise Business System (EBS):** DLA's EBS capabilities will continue to be leveraged as a major transformation initiative. It expands capabilities and benefits introduced under the Business Systems Modernization (BSM) Program by delivering additional standard systems and business processes through the integration of a family of software applications. The Agency will continue to leverage best practices and its commercially-based Commercial Off-the-Shelf (COTS) infrastructure to enable DLA to extend its EBS capabilities outward throughout the DoD supply chain. Specifically, the Agency is leveraging its existing core enterprise architecture components (SAP-based Enterprise Resource Planning (ERP) tool, Distribution Standard System (DSS), and Integrated Data Environment (IDE)) to enable a single, integrated, capability-based system that is accessible and of value to warfighters across the enterprise.

- **Energy Convergence (EC):** As DLA's Enterprise continues to expand across the DoD Supply Chain, a technology insertion effort was needed to enable the SAP Industry Solution Public Sector and the SAP Industry Solution Oil and Gas to coexist in support of the DLA Energy mission requirements. The expanded DLA Enterprise Architecture will allow DLA to integrate energy commodity management with its other classes of supply, aligning and standardizing processes and systems support. It will also allow DLA Energy to leverage Enterprise initiatives such as EProcurement and Real Property. EC source data capture at approximately 600 retail and transshipment operations locations worldwide will continue through the DLA Base-Level System Application (BLSA), which will promote sales, quality, and inventory transactional data into the DLA Enterprise. EC integrates utilization of DOD's Wide-Area-Workflow application for vendor invoicing, inspection, and acceptance recordation for Energy commodities. Management of Energy Aerospace, Natural Gas, and petroleum inventory and operations in the Alaska, Hawaii, and CONUS West Coast geographical areas was migrated to the DLA Enterprise Architecture during FY 2012/2013. Energy petroleum operations throughout OCONUS were migrated to the EC platform during FY 2014, encompassing all DLA-owned petroleum stocks worldwide. Customer-direct support provided through Card, Into-Plane, and Bunkers Programs are slated to migrate to the DLA Enterprise in November 2014.

- **Inventory Management and Stock Positioning (IMSP)**: IMSP supports the implementation of the BRAC Supply, Storage, and Distribution (SS&D) Management Reconfiguration recommendation. IMSP extends EBS and DSS process capabilities and system functionality necessary to support DLA's consumer-level (retail) SS&D responsibilities for industrial depot maintenance customers. IMSP system functionality has rolled out to users across DLA Aviation, DLA Land and Maritime, and DLA Distribution. In 2014, IMSP successfully completed rollouts to Fleet Readiness Centers (FRC) in Jacksonville, FL and Cherry Point, NC. The functional sponsor completed program closeout in May 2014.

- **EProcurement:** The EProcurement Program provides DLA with a single, enterprise-wide capability supporting the end-to-end procurement process that is more responsive to warfighter requirements. While most DLA core users have transitioned to EProcurement, a few still use the legacy DLA Pre-Award Contracting System (DPACS). DPACS is scheduled to be retired and the functionality absorbed by EBS via EProcurement in September 2014. EProcurement replaces a variety of procurement systems (e.g., DLA Strategic Materials used the Standard Procurement System; DLA Document Services used non-automated or manual procurement processes; and DLA Distribution and DLA Disposition Services used the Base Operations Support System (BOSS)). It enhances the Agency's ability to perform the depot-level reparable (DLR) procurement management mission that resulted from implementation of the BRAC 2005 DLR recommendation. A single, enterprise-wide procurement capability reduces redundancy, costliness, and employs a standard contract writing and contract administration methodology across the Agency. EProcurement achieved Full Deployment in February 2014.

DLA DLR Army extends the DLA EProcurement solution to the U.S. Army's Logistics Modernization Program (LMP). Currently, the Marine Corps is the only Service procuring DLR materials through EBS. This initiative will extend the EBS DLR functionality to the Army, with future programs planned to extend the functionality to the U.S. Navy and U.S. Air Force. The Services will maintain responsibility for funds management of their DLR materials and communicate with EBS for procurement, as required by law. The ERP solution will align the DLA DLR development timeline with LMP ERP development activities and ensure all program requirements/EBS system modifications are aligned with the U.S. Army's LMP project schedule and milestones associated with LMP's Increment 2.

- **Distribution Standard System (DSS):**

  - DSS supports distribution processes of receipt, storage, stock selection, packing, shipment plan/transportation, as well as specialized functions such as container consolidation point, set assembly, theater consolidation and shipping & reverse logistics. DSS takes advantage of real-time processing to introduce a paperless environment into the distribution business area and provides the platform to move to tailored logistics support. It improves management of distribution by adding process controls and warehouse discipline, and is more technically current and flexible than legacy systems. With implementation of the United States Air Force, United States Marine Corps (USMC) & Navy BRAC, DSS moves from a traditional wholesale distribution system to one that also accommodates retail distribution requirements.

  - DSS supports 125 Disposition Field Offices, 26 Distribution Centers, 8 Material Processing Centers (MPC), 4 Container Consolidation Points (CCPs), 4 Theater Consolidation and Shipping Points (TCSPs), 1 Intermodal Hub, and 1 Air Force Nuclear Weapons Related Material (NWRM) site. DSS has over 12,000 users across the above sites and functions.

  - Although DSS is a DLA system and primarily supports the DLS EBS, it is also a DOD-level system that stores material for other DoD Military Services' ICP/Supply Systems: D035K – Air Force's ICP Legacy System, Logistics Modernization Program (LMP) – Army's ICP ERP System, USAMMA – Army's Medical ICP ERP System, U2 – Navy's FISC System, UICP – Navy's ICP System, and the Mechanization Of Warehousing And Shipping Procedures (MOWASP) – Marine Corps ICP System.

Retail Integration: Retail integration is a transformational program to extend DLA enterprise closer to the warfighter, and where DLA becomes a manager of complete supply chains versus a manager of wholesale supplies. Instead of merely operating as a wholesaler, DLA will take supply ownership and management from the factory to the ultimate customer. By using Department-wide initiatives (such as the National Inventory Management Strategy (NIMS)); Joint Regional Inventory Materiel Management (JRIMM); Joint Environmental Materiel

Management Service (JEMMS); and the implementation of the BRAC Supply, Storage, and Distribution (SS&D) Management Reconfiguration recommendation (and supporting EBS Inventory Management and Stock Positioning – IMSP functionality), DLA will replace distinct wholesale and retail inventories with a consolidated inventory that can be managed in a more integrated manner. Through FY 2010, DLA sustained the NIMS program at five locations: the Joint Environmental Materiel Management Service Center, Okinawa, Japan; Naval Air Station Whidbey Island, Washington ; Naval Air Weapons Station China Lake, California (CA); Marine Corps Air Station Miramar, CA; and Naval Auxiliary Landing Field San Clemente Island, CA. DLA is sustaining JRIMM throughout the island of Oahu, Hawaii (HI). Currently, DLA is in a strategic pause with its retail integration initiatives and is developing an end-to-end supply chain solution that will include various retail integration strategies. By fully integrating this solution into the business systems and processes, the end-to-end supply chain will experience further reductions to customer wait-times, higher levels of supply readiness, more tailored logistics support solutions, improved inventory and customer demand visibility, greater optimization of the supply chain, better use of available resources (including lower overall DoD inventory and inventory management costs), and a reduction in the Military Services' inventory investments without reducing support.

Reverse Logistics: Reverse Logistics in DLA consists primarily of two components: The Materiel Returns Program, which equates to the 'Return' process of the Supply Chain Operations Reference Model of supply chain management; and the reutilization services performed by DLA Disposition Services.

Under the Materiel Returns Program, customers who purchase materiel, which becomes excess to their retention limits, can offer those assets back to the wholesale prior to disposal of those assets. In FY 2014 DLA processes $440.0 million of the Military Services excess materiel through the Materiel Returns Program and thru the receipt of unauthorized returns. These returns and those from previous years resulted in offsetting future procurements by over $100.0 million, thus improving both the efficiency and effectiveness of supply chain management.

The DLA Disposition Services reutilization mission primarily involves receiving materiel that is no longer needed by a component of the DoD and making it available to all of the components of the Department. In FY 2014, materiel with an estimated acquisition value over $38.0 billion was turned in to Disposition Services and $1.5 billion was reutilized within DoD. DLA Disposition Services also oversees the demilitarization and disposal of the remaining property through transfers, donations, and sales, or its ultimate disposal - as in the case with hazardous waste. The business services provided by this activity group generated revenues of approximately $301.0 million in FY 2014

Enterprise Process Management is the interweaving of end-to-end processes that cross functional boundaries by evaluating the operational, systemic and financial step-by-step group of related tasks that add value for the customer. Designed for agility, processes and improvements are evaluated from a cost, schedule and performance perspective in collaboration with enterprise stakeholders. Focus is on standardized, controlled processes and documentation.

Enterprise Risk Management (ERM) will provide Agency-wide, proactive oversight for identifying potential threats to the DLA. ERM is being structured to leverage existing resources, such as the Managers' Internal Control Program and Continuous Process Improvements.

Enterprise Organizational Alignment establishes DLA Enterprise policy regarding Organizational Alignment (OA) change, the principles to be followed in the design and implementation of OA change, the processes for securing approval of change proposals, and the process for executing such change.

Continuous Process Improvement (CPI) provides an ongoing method for analyzing how work is accomplished and how processes can be operated more efficiently and effectively. It is an enterprise-wide approach to develop a culture of continuous improvement in the areas of reliability, process cycle times, costs, quality, and productivity. CPI applies and employs a broad range of tools and methods, such as Lean (to eliminate all types of waste), Six Sigma (to optimize process variation) and Theory of Constraints (to alleviate process bottlenecks).

Joint Reserve Force (JRF): Funded by the military services, the DLA JRF is composed of 659 reservists from the Army, Navy, Marines and Air Force. These reservists are utilized by DLA in a variety of capacities in support of peacetime operations, planning and exercises, contingencies, and wartime surges. Since September 11, 2001, 1250 DLA reservists have activated, serving a total of 1497 tours of duty in support of Operations Enduring Freedom, Iraqi Freedom, New Dawn, and Odyssey Dawn. During FY 2014, 191 reservists mobilized to support to DLA's two DLA Support Teams in Kuwait and Afghanistan. Collectively, activated reservists logged more than 47,000 man-days of support to DLA Support Teams, field activities, and Headquarters' missions. The Agency's Stewardship Excellence initiative is carried out by the JRF in the 11,743 man-days of operational support provided (at no cost) to the Agency.

In order to meet the operational support needs of DLA, the JRF completed multiple training activities in FY 2014. In total, 197 DLA reservists participated in the Expeditionary Academy at DLA Distribution Susquehanna, PA. DLA Distribution's Expeditionary Team partnered with the Organizational Management and Expeditionary Logistics Division to design the two-week course, which includes hands-on training with a variety of Material Handling Equipment, the Distribution Standard System and the construction of an inflatable Air Beam shelter. The objective of the course is to provide necessary training for DLA members enabling them to deploy as trained assets for DLA Distribution. Additionally, 50 DLA reservists completed the Overseas Contingency Operations Readiness Training at DLA Disposition Services, Battle Creek, Michigan (MI). This training prepared participants for expeditionary requirements for Disposition Services to include construction of work sites and receipt of property. The reservists partner with members of the Civilian Expeditionary Workforce during this training course, allowing for greater augmentation and knowledge sharing.

To ensure training requirements match DLA needs and to keep DLA JRF leadership in unison, 91 reservists and civilian employees participated in the Combine Drill Weekend at DLA HQ, September 5-7, 2014. This workshop included briefings on DLA current operations, future challenges, and service-specific requirements as well as detailed discussions for planning for DLA JRF annual training opportunities. This forum ensures joint team leaders and senior enlisted throughout the JRF understand the current and future plans for manning, mobilization and training and readiness.

BLANK PAGE

MESSAGE FROM THE CHIEF FINANCIAL OFFICER
NOVEMBER 2014

By fiscal year (FY) 2017, Congress mandated full auditability for all of the Department of Defense's financial statements. DLA is on target and the Office of the Secretary of Defense has given DLA permission to proceed with planning and contracting for a full-financial statement audit. By the end of this fiscal year DLA's Financial Statements for General Fund (GF), Defense Working Capital Fund, and Transaction Fund will be audit ready.

DLA is a complex, global organization and continues to focus on what is critical to reach assertion. This includes examining the significance of transactions, balances, and errors contained in the financial statements, performing controls testing, substantive testing and implementing Corrective Action Plans as necessary.

We continue to work with the Defense Finance and Accounting Service (DFAS) to overcome deficiencies and put compensating controls in place where needed. Additionally, we have a new Mission Work Agreement in place with DFAS to ensure our key processes and controls are in place and that we are monitoring them timely.

Internal Controls are the responsibility of DLA Leadership. We conduct reviews of the effectiveness of the internal controls to validate processes are being performed as documented and that key controls are in place and operating effectively. DLA's FY 2014 Annual Statement of Assurance included a qualified opinion on internal controls. Weaknesses identified are being aggressively addressed.

Ultimately, the DLA Chief Information Officer is responsible for DLA's system technology and its related controls. DLA has asserted to our key systems and will continue to retest them to ensure they stay audit ready.

In FY 2014, DLA asserted to the Audit Readiness of Environmental Liabilities Management—CONUS; GF Schedule of Budgetary Activity; Hire to Retire Travel; Plan to Stock: Inventory Existence & Completeness; Acquire to Retire Internal Use Software and General Equipment – CONUS; and Service Provider for Inventory. By September 30, 2015, we will assert agency-wide assertion letters for Working Capital Fund, GF, and Transaction Fund, each covering he following financial statements: Balance Sheet, Statement of Budgetary Resources, Statement of Net Cost, and Statement of Changes in Net Position.

J. Anthony Poleo

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

BLANK PAGE

Defense Logistics Agency
Working Capital Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2014 and 2013

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,642,639	$ 1,408,187
Other Assets (Note 6)	124,925	124,925
Total Intragovernmental Assets	1,767,564	1,533,112
Accounts Receivable, Net (Note 5)	993,082	900,132
Inventory and Related Property, Net (Note 9)	18,628,842	18,905,114
General Property, Plant and Equipment, Net (Note 10)	1,639,763	1,961,646
Other Assets (Note 6)	37,286	39,200
TOTAL ASSETS	$ 23,066,537	$ 23,339,204
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 123,145	$ 106,863
Other Liabilities (Note 15 & 16)	374,915	445,574
Total Intragovernmental Liabilities	498,060	552,437
Accounts Payable (Note 12)	1,903,952	2,528,481
Military Retirement and Other Federal Employment Benefits (Note 17)	247,765	257,941
Environmental and Disposal Liabilities (Note 14)	1,076,030	570,140
Other Liabilities (Note 15 and Note 16)	247,918	220,338
TOTAL LIABILITIES	$ 3,973,725	$ 4,129,337
NET POSITION		
Cumulative Results of Operations - Other Funds	$ 19,092,812	$ 19,209,867
TOTAL NET POSITION	19,092,812	19,209,867
TOTAL LIABILITIES AND NET POSITION	$ 23,066,537	$ 23,339,204

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
PROGRAM COSTS		
Gross Costs	$ 47,914,882	$ 45,101,067
(Less: Earned Revenue)	(46,048,154)	(40,810,090)
Net Program Costs Including Assumption Changes	1,866,728	4,290,977
NET COST OF OPERATIONS	$ 1,866,728	$ 4,290,977

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 19,209,867	$ 21,967,075
Beginning balances, as adjusted	19,209,867	21,967,075
Budgetary Financing Sources:		
Appropriations used	178,106	230,135
Nonexchange revenue	(195)	(862)
Transfers-in/out without reimbursement	(623,425)	1,240,040
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	2,020,940	(106,712)
Imputed financing from costs absorbed by others	174,248	171,168
Other (+/-)	(1)	-
Total Financing Sources	1,749,673	1,533,769
Net Cost of Operations (+/-)	1,866,728	4,290,977
Net Change	(117,055)	(2,757,208)
Cumulative Results of Operations	$ 19,092,812	$ 19,209,867
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations transferred-in/out	178,106	230,135
Appropriations used	(178,106)	(230,135)
Net Position	$ 19,092,812	$ 19,209,867

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 116,155	$ 116,430
Unobligated balance brought forward, October 1, as adjusted,	116,155	116,430
Recoveries of prior year unpaid obligations	5,370,665	2,841,739
Other changes in unobligated balance (+ or -)	(5,680,758)	(1,421,863)
Unobligated balance from prior year budget authority, net	(193,938)	1,536,306
Appropriations (discretionary and mandatory)	178,106	230,135
Contract Authority (discretionary and mandatory)	43,341,472	39,823,942
Spending Authority from offsetting collections (discretionary and mandatory)	614,204	(1,152,724)
Total Budgetary Resources	$ 43,939,844	$ 40,437,659
Status of Budgetary Resources:		
Obligations Incurred	$ 43,817,102	$ 40,321,504
Unobligated balance, end of year		
Apportioned	122,742	116,155
Total unobligated balance, end of year	122,742	116,155
Total Budgetary Resources	$ 43,939,844	$ 40,437,659

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years Ended September 30, 2014 and 2013
(In Thousands)

		2014		2013
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	$	22,413,114	$	24,756,566
Obligations incurred		43,817,102		40,321,504
Outlays (gross) (-)		(38,306,623)		(39,823,217)
Recoveries of prior year unpaid obligations (-)		(5,370,665)		(2,841,739)
Unpaid obligations, end of year		22,552,928		22,413,114
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)		(10,230,326)		(9,802,004)
Change in uncollected pymts, Fed sources (+ or -)		856,332		(428,322)
Uncollected pymts, Fed sources, end of year (-)		(9,373,994)		(10,230,326)
Obligated balance, start of year (+ or -)		12,182,788		14,954,562
Obligated balance, end of year (+ or -)	$	13,178,934	$	12,182,788
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)		44,133,782		38,901,353
Actual offsetting collections (discretionary and mandatory) (-)		(37,340,822)		(38,722,910)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)		856,332		(428,322)
Budget Authority, net (discretionary and mandatory)	$	7,649,292	$	(249,879)
Outlays, gross (discretionary and mandatory)		38,306,623		39,823,217
Actual offsetting collections (discretionary and mandatory) (-)		(37,340,822)		(38,722,910)
Outlays, net (discretionary and mandatory)		965,801		1,100,307
Agency Outlays, net (discretionary and mandatory)	$	965,801	$	1,100,307

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
Working Capital Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2014 and 2013

BLANK PAGE

Note 1. Significant Accounting Policies

A. Basis of Presentation

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

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

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

The DoD currently has 13 auditor identified material weaknesses. Of these, DLA has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Inventory; (5) General Property, Plant, and Equipment; (6) Accounts Payable; (7) Intragovernmental Eliminations; and (8) Other Accounting Entries.

B. Mission of the Reporting Entity

The DLA’s primary mission is to provide best value logistics integrated solutions to meet the needs of America’s Armed Forces and other designated customers around the clock, around the world in time of peace, national emergency, and war. Support begins with joint planning for parts used in new weapons systems, extends through production and contract support, distribution and warehousing, and concludes with the disposal of materiel that is obsolete, worn out, or no longer needed.

The DLA provides supply support, technical/logistics services and quality support to all branches of the Military and other non-DoD customers. The DLA activity groups executing these funds include: DLA Supply Chain, DLA Energy, and DLA Document Services. The Supply Chain is comprised of: DLA Land and Maritime, DLA Aviation, DLA Troop Support, DLA Distribution, and DLA Disposition Services. The DLA also manages the DLA Strategic Materials fund that is a separate reporting entity for financial statement purposes.

The BRAC 2005 Supply and Storage were completed September 15, 2011. BRAC 2005 resulted in the following transformational initiatives with the Military Departments: (1) The Commodity Management Privatization of the supply and storage of selected commodities (i.e., tires, compressed gases and petroleum, oil, lubricant packages), (2) Realignment of Depot - Level Reparable (Procurement Management/Consumable Item Transfer) procurement management of repair parts from the Military Services to DLA at selected sites and transfer of supply management of selected consumable items to DLA, and (3) Realignment of Supply, Storage and Distribution Reconfiguration to supply, storage and distribution functions through consolidation and management reconfiguration at 13 sites. The BRAC 2005 funding is available until 2017, at which time, the funds will cancel.

C. Appropriations and Funds

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

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

The DLA WCF is provided two forms of budgetary authority: contract authority and anticipated reimbursement authority. DLA Supply Chain and DLA Energy are provided contract authority for both operations and capital programs. The DLA Document Services activity is provided anticipated reimbursement authority for its operations and contract authority for its capital programs. Contract authority allows for the incurring of obligations prior to receipt of customer orders. In contrast, anticipated reimbursement authority requires the receipt of customer orders prior to incurring obligations. Contract authority must subsequently be liquidated through the receipt of customer orders, appropriations or transfers.

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

The DLA WCF activities recognize revenue from the sale of inventory items and services. The DLA does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, "Reconciliation of Net Cost of Operations to Budget." The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as accounts payable, environmental liabilities, and unbilled revenue. The DLA continues to implement process and system improvements to address these limitations.

G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, DLA cannot accurately identify intragovernmental transactions by customer because

DLA's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While DLA is unable to fully reconcile intragovernmental transactions with all federal agencies, DLA is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

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

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

H. Transactions with Foreign Governments and International Organizations

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

The DLA's fuel transactions with foreign governments are made under fuel exchange agreements (FEAs). The FEAs, also known as replacement in kind agreements, are international acquisition and cross-servicing agreements established between DLA and the military departments of other nations. The DLA utilizes FEAs to account for fuel provided by foreign militaries to the U.S. Military as well as fuel provided by DLA to other nations. Settlement can be made either in fuel or cash. For cash settlements, the agreements typically call for reciprocal pricing (i.e. prices cannot be more than the participants charge their own military). The DLA charges DoD standard prices to foreign militaries.

I. Funds with the U.S. Treasury

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

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

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by Treasury. Additionally, while DLA maintains collection and disbursement clearing accounts, those cash balances are transferred to the DWCF cash account on an annual basis. As a result, DLA does not report FBWT separately at fiscal yearend.

J. Cash and Other Monetary Assets

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

K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon the Analysis of Receivables by Age Group Method, with the exception for the Energy business area. Energy uses the General Reserve Method based on bad debt experience and changes in outstanding accounts receivable balance. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies IAW dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

Exchange transactions such as FEAs must be settled through the issuance or receipt of replacement supplies or services within 12 months of the original transaction according to current DoD policy. As the settlement of the exchange transactions is authorized to take up to 12 months, the analysis of the nonfederal accounts receivable balances greater than 180 days old could be distorted. To assist in the analysis, Note 5, Accounts Receivable, separates FEA transaction balances from the remainder of the nonfederal accounts receivable. Currently, upon reconciliation, the purchases of fuel from foreign governments are netted against their accounts receivable balances are transferred to the DWCF cash account on an annual basis. As a result, DLA does not report FBWT separately at fiscal yearend.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA WCF.

M. Inventories and Related Property

The DLA values approximately 62% of its resale inventory using the moving average cost method. An additional 38% (fuel inventory) is reported using the moving average price. The DLA manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in DLA's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The DLA holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale".

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

The DLA recognizes excess, obsolete and unserviceable inventory at a net realizable value (NRV) of $230.7 million, IAW Department of Defense, Financial Management Regulation, Volume 4, Chapter 4, "Inventory and Related Property".

N. Investments in U.S. Treasury Securities

Not Applicable to DLA WCF.

O. General Property, Plant and Equipment

The DoD's General Property, Plant, and Equipment (PP&E) capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/ improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

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

When it is in the best interest of the government, DLA provides government property to contractors to complete contract work. The DLA either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on DLA's Balance Sheet. The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires DLA to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The DLA has not fully implemented this policy primarily due to system limitations.

P. Advances and Prepayments

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

Q. Leases

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

R. Other Assets

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

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

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

S. Contingencies and Other Liabilities

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

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

Other liabilities also arise as a result of anticipated disposal costs for DLA's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset.

T. Accrued Leave

The DLA reports liabilities for accrued compensatory leave, annual leave, restored annual leave, restored BRAC leave and credit hours for civilians. As a WCF activity, DLA is required to fund civilian accrued annual leave earned but not taken. Sick leave and travel compensatory time are expensed as taken. The liabilities are based on current pay rates.

U. Net Position

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

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

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

V. Treaties for Use of Foreign Bases

This is not applicable to the DLA WCF.

W. Undistributed Disbursements and Collections

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

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

X. Fiduciary Activities

This is not applicable to the DLA WCF.

Y. Military Retirement and Other Federal Employment Benefits

The Department applies SFFAS No. 33, “Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and valuation Dates”, in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actual liability are presented separately on the Statement of Net Cost, Refer to Note 17, Military Retirement and Other Federal Employment benefits and Note 18, General Disclosures Related to the Statement of net Cost, for additional information.

Z. Significant Events

This is not applicable to the DLA WCF.

Note 2. Nonentity Assets

As of September 30		2014		2013
(Amounts in thousands)				
Nonfederal Assets				
Accounts Receivable	$	336,816	$	407,053
Total Nonfederal Assets		333,816		407,053
Total Nonentity Assets	$	336,816	$	407,053
Total Entity Assets	$	22,729,721	$	22,932,151
Total Assets	$	23,066,537	$	23,339,204

Nonentity Assets are assets for which DLA maintains stewardship accountability and reporting responsibility but are not available for DLA's normal operations.

The Nonfederal Accounts Receivable consists of a claim filed against a vendor in 2nd Quarter, FY 2012, for a potential overpayment of services by DLA Troop Support - Subsistence.

Note 3. Fund Balance with Treasury

The U.S. Treasury maintains and reports the DWCF fund balance at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included in the Defense-Wide Working Capital Fund (DWWCF), a TI 97 DWCF appropriation sub-numbered account. This account is maintained at an aggregate level that does not provide identification of the separate Defense Agencies. Additionally, while DLA maintains collections and disbursement clearing accounts, those cash balances are transferred to the DWWCF cash account on an annual basis. As a result, the United States Treasury does not separately report an amount for the DLA and therefore, the entire DLA's Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount. The DLA balance in the DWCF cash account as of the 4th Quarter, FY 2014 is $1.4 billion.

Status of Fund Balance with Treasury

As of September 30	2014	2013
(Amounts in thousands)		
Unobligated Balance		
Available	$ 122,742	$ 116,155
Obligated Balance not yet Disbursed	$ 22,552,927	$ 22,413,114
NonFBWT Budgetary Accounts	$ (21,373,254)	$ (19,815,735)
Total	$ 1,302,415	$ 2,713,534

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

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

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

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. The DLA does not have any Nonbudgetary FBWT accounts this reporting period.

NonFBWT Budgetary Accounts reduces the Status of FBWT. The DLA’s NonFBWT Budgetary Accounts consists of current year contract authority, contract authority carried forward, substitution of contract authority, contract authority withdrawn, contract authority liquidated, unfilled customer orders without advance and reimbursements and other income earned.

The $1.3 billion difference FBWT (Total Fund Balance - Line 1.F versus the Status of Fund Balances - Line 5) is the prior year transfer of FBWT to the Component level (.005) IAW the DoD Financial Management Regulation, Volume 4, Chapter 2, paragraph 020402.c.

Note 4. Investments and Related Interest

This is not applicable to the DLA WCF.

Note 5. Accounts Receivable

As of September 30 (Amounts in thousands)	2014		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,642,639	N/A	$ 1,642,639
Nonfederal Receivables (From the Public)	$ 1,024,033	$ (30,951)	$ 993,082
Total Accounts Receivable	$ 2,666,672	$ (30,951)	$ 2,635,721

As of September 30 (Amounts in thousands)	2013		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,408,186	N/A	$ 1,408,186
Nonfederal Receivables (From the Public)	$ 1,045,621	$ (145,489)	$ 900,132
Total Accounts Receivable	$ 2,453,807	$ (145,489)	$ 2,308,318

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

Note 6. Other Assets

As of September 30	2014	2013
(Amounts in thousands)		
Intragovernmental Other Assets		
Other Assets	124,925	124,925
Total Intragovernmental Other Assets	$ 124,925	$ 124,925
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$ 37,240	$ 39,153
Advances and Prepayments	46	48
Other Assets (With the Public)	0	0
Total Nonfederal Other Assets	$ 37,286	$ 39,201
Total Other Assets	$ 162,211	$ 164,126

Composition of Other Lines

Intragovernmental Other Assets consist of crude oil held by the Department of Energy (DoE) on behalf of the DoD. The DLA has the right to approximately 6.4 million barrels of crude oil held by DoE on behalf of DoD. Public Law 102-396, Section 9149 enacted in November 1992 established the requirement for DoE to acquire and maintain a strategic petroleum reserve for national defense purposes. Section 9149 provided appropriations for the acquisition, storage, and drawdown of such reserve. Proceeds from sales of this reserve will be deposited to DoD's accounts and remain available until expended. The DoE reports this crude oil in inventory in their financial statements, with an offsetting custodial liability to DoD. By law, the reserve cannot be drawn down or released to DoD without a Presidential Order along with the advice from the Secretary of Defense. To date none of the reserve has been drawn upon, thus the full inventory remains on hand with DoE. See the Energy Policy and Conservation Act (42 USC 6241(d)), Section 161(d) for further details.

Contract Financing Payments

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

Outstanding Contract Financing Payments includes $32.0 million in contract financing payments and $5.3 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, Other Liabilities, for further information.

Note 7. Cash and Other Monetary Assets

This is not applicable to the DLA WCF.

Note 8. Direct Loan and Loan Guarantees

This is not applicable to the DLA WCF.

Note 9. Inventory and Related Property

As of September 30	2014	2013
(Amounts in thousands)		
Inventory, Net	$ 18,628,842	$ 18,905,113
Total	$ 18,628,842	$ 18,905,113

Restrictions

The DLA Supply Chain Management (SCM) Inventory, Net total has restrictions of $73.7 million related to inventory in litigation. Inventory in litigation (condition code L) is materiel held pending litigation or negotiation with contractors or common carriers, and remains in condition code L until negotiated or settled.

General Composition of Inventory

The DLA inventory is comprised of SCM and Energy Management and both are reported in the Enterprise Business System.

Inventory for SCM consists of Troop and Weapon Systems Support supply chains. DLA Troop Support Inventory includes Clothing and Textiles; Construction and Equipment; Medical; and Subsistence. Weapons Systems inventory includes repair parts for the DLA Aviation and the DLA Land and Maritime supply chains.

Energy Management inventory consists of jet fuels, aviation gasoline, automotive gasoline, heating oil, power generation, naval propulsion fuels, lubricants, and missile propellants.

As of 4th Quarter, FY 2014, DLA reported $11.5 billion inventory using Moving Average Cost and $7.1 billion inventory using Moving Average Price.

Decision Criteria for Identifying the Category to which Inventory is assigned:

The DLA identifies inventory categories and condition codes based on DoD Financial Management Regulation Volume 4, Chapter 4, paragraph 040304G "Relationship of General Ledger Inventory Accounts to Logistic Supply Condition Codes". The categories and condition codes are:

U.S. Standard General Ledger Account	Supply Condition Code
1521 Inventory Purchased For Resale	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification
1522 Inventory Held in Reserve for Future Sale	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) Q Suspended (Quality Deficient Exhibits)
1523 Inventory Held For Repair	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination)
1524 Inventory-Excess, Obsolete, or Unserviceable	Use this account to record amounts for inventory that is NOT reportable in USSGL accounts 1521, 1522, or 1523. The inventory reported using this account must be valued at its Net Realizable Value. [Includes Serviceable and Unserviceable Excess Inventory]

Minimum Inventory Levels

The DLA maintains congressionally mandated minimum levels of specific inventory items. These items are not necessarily restricted for use; rather these are mandated minimum levels for DLA that drive fluctuations in the DLA inventory levels. The Meals Ready to Eat has a congressionally mandated level of 5.1 million cases.

Petroleum inventories are comprised mostly of products with military specification and are stocked primarily to meet wartime operation plans and to ensure that DLA has sufficient stocks in place to minimize any risk to the warfighter. Wartime petroleum requirements are calculated by Military Services and coordinated with Combatant Commanders. The DLA Energy Management then works with the Combatant Commanders to position those stocks where space permits and within the funded volumes. The current collaborates wartime stockage objective is 34.5 million barrels (mbbls). Peacetime bulk petroleum inventory requirements are calculated by Energy Management IAW guidelines provided by Office of the Under Secretary of Defense (Comptroller), and are positioned by Energy Management prior to placing war reserve inventories. The peacetime objective is 21.1 mbbls. These inventories are not physically segregated in tankage, meaning that wartime (appropriated funded) stocks can be used to meet peacetime (working capital funded) requirements.

Inventory, Net

As of September 30	2014			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Inventory Categories				
Available and Purchased for Resale	$ 8,359,151	$ 0	$ 18,359,151	MAC,MAP
Held for Repair	38,282	(766)	37,516	MAC
Excess, Obsolete, and Unserviceable	232,175	0	232,175	NRV
Total	$ 18,629,608	$ (766)	$ 18,628,842	

As of September 30 (Amounts in thousands)	2013 Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(				
Inventory Categories				
Available and Purchased for Resale	$ 18,812,526	$ 0	$ 18,812,526	MAC, FIFO
Held for Repair	154,312	(61,725)	92,587	MAC
Excess, Obsolete, and Unserviceable	6,062,722	(6,062,722)	0	NRV
Total	$ 25,029,560	$ (6,124,44	$ 18,905,113	

Legend for Valuation Methods:

MAP = Moving Average Price
MAC = Moving Average Cost
NRV = Net Realizable Value

Beginning in FY 2014, DLA changed from using the allowance account for valuing excess, obsolete and unserviceable (EOU) inventory at zero to recognizing EOU at its net realizable value (NRV). The EOU inventory value was calculated by applying the factor to the total acquisition value of inventory at quarter-end. The NRV factor was calculated by dividing by net recoveries from the sale of EOU inventory by the total acquisition value of the inventory disposed to DLA.

Note 10. General PP&E, Net

As of September 30			2014		
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 or 40	$ 1,691,755	$ (1,239,556)	$ 452,199
Software	S/L	2-5 or 10	1,611,485	(1,078,055)	533,430
General Equipment	S/L	Various	556,869	(399,931)	156,938
Assets Under Capital Lease	S/L	Lease Term	179	(179)	0
Construction-in-Progress	N/A	N/A	497,196	N/A	497,196
Total General PP&E			$ 4,357,484	$ (2,717,721)	$ 1,639,763

As of September 30	2013				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 or 40	$ 2,118,979	$ (1,582,183)	$ 536,796
Software	S/L	2-5 or 10	1,965,162	(1,187,050)	778,112
General Equipment	S/L	Various	509,310	(351,925)	157,385
Assets Under Capital Lease	S/L	Lease Term	358	(346)	12
Construction-in-Progress	N/A	N/A	488,041	N/A	488,041
Other			1,823	(522)	1,301
Total General PP&E			$ 5,083,673	$ (3,122,026)	$ 1,961,647

See Note 15 for additional information on Capital Lease

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	4	0	0	4

During FY 2014 data clean-up efforts, DLA discovered assets/real property which were not recorded in the general ledger or reflect an accurate value. A decision was made to record the assets in the general ledger at $1.49 each until research is completed to properly support the assets valuation. Valuation of these assets is expected to be completed in FY 2015.

Restrictions

There are no restrictions on the use or convertibility of General Property, Plant and Equipment (General PP&E) except for heritage assets.

Heritage Assets and Stewardship Land

Statement of Federal Financial Accounting Standards No. 29, Heritage Assets and Stewardship Land, requires note disclosures for PP&E that are unique because of historical or natural significance; cultural, educational, or artistic (e.g. aesthetic) importance; or significant architectural characteristics. The DLA's policy is to preserve and account for its heritage assets. The DLA's heritage assets consist of a building, a monument, and cemeteries. The DLA has no stewardship land. The DLA's heritage assets are resources that are managed to provide multiple use activities for the public benefit to include compliance with required federal laws, executive orders, Department of Defense policies, final governing standards and other binding agreements.

The DLA has four heritage assets that include: (1) an early nineteenth century plantation house which the Defense Supply Center Richmond (DSCR) operates and serves as the DSCR Officer's Club and is listed in the National Register, (2) a Native American monument which was jointly established by DSCR and a local Native American organization to honor Native American culture, and (3) two cemeteries located at DSCR which DLA has administrative and curatorial responsibilities. The Bellwood Club, Gregory Cemetery and African American Cemetery were acquired as part of land purchase for the base. The Handicapped ramp for the Bellwood Club, Improvements to the African American Cemetery, Improvements to the Gregory Cemetery and Native American Memorial were acquired by construction. Refer to the Table below for additional information.

As of September 30, 2014 (4th Quarter)

Asset	Depreciation/ Amortization Method	Acquisition Date	Service Life Years	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Bellwood Club	S/L	July 1, 1840	40	$ 482,200.00	$ 482,200.00	$
Capital Improvements						
Construct Handicap Ramp	S/L	May 23, 1995	20	$ 212,818.00	$ 210,157.38	$ 2,660.26
Net Bellwood Club				$ 695,018.00	$ 692,357.38	$ 2,660.26
Gregory Family Cemetery	N/A	July 1, 1993		$ 28,000.00	$ -	$ 28,000.00
African American Cemetery	N/A	July 1, 2000		$ 28,772.00	$ -	$ 28,772.00
Native American Monument	N/A	July 1, 2001		$ 22,274.00	$ -	$ 22,274.00
Net Heritage Assets				$ 774,064.00	$ 692,357.38	$ 81,706.26

Current Annual Depreciation on Bellwood Club Capital Improvements

	Years	Acquisition Costs	Annual Depreciation	Monthly Depreciation
Handicapped Ramps	20	$ 212,818.00	$ 10,640.90	$ 886.74

Method of Depreciation is straight line.

Assets Under Capital Lease

As of September 30	2014	2013
(Amounts in thousands)		
Entity as Lessee, Assets Under Capital Lease		
Equipment	$ 179	$ 358
Accumulated Amortization	(179)	(346)
Total Capital Leases	$ 0	$ 12

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2014	2013
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 21,002	$ 23,677
Total Intragovernmental Liabilities	21,002	23,677
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	247,764	257,941
Environmental and Disposal Liabilities	1,033,424	507,386
Other Liabilities	34,487	2,300
Total Nonfederal Liabilities	$ 1,315,675	$ 767,627
Total Liabilities Not Covered by Budgetary Resources	$ 1,336,677	$ 791,304
Total Liabilities Covered by Budgetary Resources	$ 2,637,048	$ 3,338,034
Total Liabilities	$ 3,973,725	$ 4,129,338

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided. The DLA Working Capital Fund current year liabilities not covered by budgetary resources are primarily comprised of actuarial Federal Employees Compensation Act (FECA) benefits and Environmental Liabilities. The unfunded FECA liability consists of liabilities for cases being paid by the Department of Labor (DOL) for employees of DLA and actuarial cost projections. Unfunded environmental liabilities are estimates related to future events.

Composition of Other Lines

Intragovernmental Liabilities: Other consists of accruals for current year FECA liability based on DOL records.

Environmental and Disposal Liabilities: Refer to Note 14, Environmental and Disposal Liabilities for additional details and disclosures.

Nonfederal Liabilities: Other generally consists of contingent legal liabilities that comprise of 11 cases within DLA Troop Support (5), DLA Aviation (4), DLA Land & Maritime (1), and DLA Headquarters (1) pertaining to a case with the Armed Services Board of Contract Appeals.

Military Retirement and Other Federal Employment Benefits:

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of employee actuarial FECA liabilities estimated to be payable in a future fiscal year in the amount of $247.8 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2014		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 123,145	$ N/A	$ 123,145
Nonfederal Payables (to the Public)	1,903,952	0	1,903,952
Total	$ 2,027,097	$ 0	$ 2,027,097

As of September 30	2013		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 106,863	$ N/A	$ 106,863
Nonfederal Payables (to the Public)	2,528,482	0	2,528,482
Total	$ 2,635,345	$ 0	$ 2,635,345

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA systems do not track all intragovernmental transactions by customer at the transaction level. Therefore, buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

This is not applicable to the DLA WCF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30		2014		2013
(Amounts in thousands)				
Environmental Liabilities--Nonfederal				
Environmental Corrective Action	$	1,073,619	$	570,140
Environmental Closure Requirements		2,411		0
Total Environmental Liabilities	$	1,076,030	$	570,140

The DLA's Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the Defense Working Capital Fund environmental restoration programs and (2) anticipated future costs necessary to complete the environmental restoration requirements at DLA Energy's environmental sites. In FY 2014, DLA utilized Version 11.1 of the Remedial Action Cost Engineering and Requirements (RACER) software to generate the FY 2015 Cost to Complete (CTC) estimates of anticipated future costs. Cost estimates related to DLA Energy were generated for 3,834 sites; 3,752 sites associated with closure costs, and 82 sites are corrective action costs. Additionally, cost estimates were generated for 132 sites associated with Non-Energy closure costs.

The DLA has developed a plan for collecting and reporting EL for Non-Base Realignment and Closure (Non-BRAC) contamination at DLA managed Installations including Government-Owned Contractor-Operated fuel points and for service-owned and operated fuel terminals where DLA stores fuel. To obtain the Service-owned fuel terminals data, DLA developed an environmental template that will be provided to the military services after the Office of the Under Secretary of Defense (Comptroller) resolves real property record inconsistencies between the military services and DLA.

Applicable Laws and Regulations for Cleanup Requirements

The DLA is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. The DLA is required to comply with the following laws and regulations where applicable: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA); Resource Conversation and Recovery Act (RCRA); the Superfund Amendments and Reauthorization Act (SARA); the Resource Conservation and Recovery Act; and the Clean Water Act require DLA to clean up contamination caused by DLA in coordination with regulatory agencies. This cleanup may at times extend beyond Installation boundaries onto privately owned property and to sites where DLA is named as a potentially responsible party by a regulatory agency.

Types of Environmental Liabilities and Disposal Liabilities

The DLA is responsible for cleanup requirements for Non-BRAC Installations. All cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER software, an independently validated software application, to estimate future environmental costs. The RACER Steering Committee ensures that the software is Validated, Verified, and Accredited (VV&A) IAW Department of Defense (DoD) Instruction 5000.61.

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

Changes in estimates from the previous CTC occurred in the FY 2015 CTC due to changes in site conditions, better site characterization, improved analysis by program managers, and changes program management due to an increased level of Defense State Memorandum of Agreement (DSMOA) and manpower costs. In addition, changes to closure costs occurred primarily due to expanding the data set from DLA's EBS for closure sites. Year-to-year fluctuations in DLA's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2015 CTC has incorporated the DoD inflation factors into the Non-BRAC corrective action and closure estimates. The latest version of RACER was used to prepare the estimates.

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

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

DLA has instituted extensive controls to ensure that these estimates are reasonably accurate and reproducible. Due to the inherent uncertainty involved with environmental contamination and associated remedial actions, RACER, as a parametric cost estimating tool, is used as a preliminary order of magnitude estimate. The stated total liability includes prior year obligations and the estimate of future costs necessary to complete the environmental restoration requirements.

During the development of the FY 2015 CTC estimates, the sites identified in the table below were identified as Potential ELs or ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. This table also lists ELs with no associated CTC estimates as all funding anticipated to be required for these sites was obligated in FY 2014 or earlier. These sites will be re-evaluated during the next CTC process to determine if any changes have taken place and sufficient information/data is available to create an estimate of future costs that would be included in the Defense Working Capital Fund EL.

DLA Defense Working Capital Fund Sites Not Included in the FY 2015 CTC:

Installation	Site Name	Category	Comments
Red Hill Fuel Facility, Hawaii (HI)	Tank Release #5	Potential EL	Release occurred in January 2014. Funding has been provided for emergency response and investigations, but results are not available. Currently, there is not enough information to determine if an EL exists, and/or to determine out-year requirements. This site will be reevaluated for the FY 2016 CTC.
DFSP Osan, South Korea	Possible Leak at Osan Fuel Stand and Bulk Storage	Potential EL	Free product was found in one on-site well in April 2014 (thickness unknown) which may be a result of a leak. Observation of free product on the plumb bob tape indicated that the product is relatively new and did not show signs of aging or weathering. All lines were pressure-tested with the exception of the truck fill-stands. Those two lines were recently replaced. All tanks were tested (mass-based,

Installation	Site Name	Category	Comments
	Area		tightness testing) and there were no indications of leakage. Investigation into the cause of the free product is ongoing. Currently, there is not enough information to determine if an EL exists. This site will be reevaluated for the FY 2016 CTC.
NAS Pensacola, FL	Pensacola Spill (2014) - Facility 1879	Potential EL	A MILCON/UST removal at Facility 1879 is planned. Possibility of discovery of contamination during MILCON. Currently, there is not enough information to determine if contamination requiring corrective action exists. This site will be reevaluated for the FY 2016 CTC.
MCAS Miramar, CA	Hot Pit Refuel Area 13	Potential EL	Site assessment is ongoing and results are not yet available. Currently, there is not enough information to determine if contamination requiring corrective action exists. This site will be reevaluated for the FY 2016 CTC.
DFSP Verona, New York	Tank 4 Area	Potential EL	A spill occurred at DFSP Verona Tank 4. The spill was discovered during an engineering project that included removal of one tank. Currently waiting 60 days for operations group to determine if a site assessment is needed. Currently, there is not enough information to determine if contamination requiring corrective action exists. This site will be reevaluated for the FY 2016 CTC.
Ft. McCoy, Wisconsin	Retail Point	Potential EL	Site characterization activities are planned to be funded in FY 2014. Assumption site will not need out-year funding, but will re-assess for FY 2016 CTC.
Ellsworth AFB, South Dakota	Ellsworth AFB	Potential EL	The CTC Team reviewed a United States Geological Survey proposal for a study to determine placement for monitoring wells and to further analyze nature and extent of contamination. The results of this study are needed to determine if an EL exists and/or to develop out-year requirements. This site will be reevaluated for the FY 2016 CTC.
NS Rota, Spain	Tank #6 Leak: 2008	Potential EL	There is not enough information to definitively state that an environmental liability exists. In 2008, tank 6 failed a tightness test and is potentially leaking fuel into the groundwater. The current status of this site is not known;

Installation	Site Name	Category	Comments
			however, if groundwater contamination has occurred, the site could be a potential liability. There is not enough information to estimate site this year or future requirements (the site does not meet reasonably estimable criteria). This site will be revisited for the FY 2016 CTC.
Naval Support Activity (NSA) Souda Bay, Greece	Souda Bay	Potential EL	There is not enough information to definitively state that an environmental liability exists. A release occurred when a local contractor damaged a JP-5 pipeline with backhoe. Navy was to determine if cost recovery efforts would be cost effective to pursue. The decision will be based on total cost of estimated cleanup and pipeline repair/testing required. The current status of this site is unknown, and there is not enough information to create an estimate. This site will be reevaluated for the FY 2016 CTC.
RAF Lakenheath, United Kingdom (UK)	June 2012	Potential EL	There is not enough information to definitively state that an environmental liability exists, or the potential out-year liability for the FY 2014 CTC preparation. Awaiting results of the Remedial Investigation (RI). Future requirements cannot be estimated. No work has begun since funding was not provided due to permitting issues and then the nearby pipeline spill (fall 2013). Expect work to begin in the summer of 2014. This site will be revisited for the FY 2016 CTC.
RAF Lakenheath, UK	POL 7 Pipeline Leak (November 2013)	Potential EL	The initial investigation has been funded, but there is not enough information to determine if an EL exists, or to estimate out-year requirements. This site will be reevaluated for the FY 2016 CTC.
MCAS New River, NC	Taxiway Echo	EL	Spill site. A soil excavation has been funded with Period of Performance (PoP) through March 2015. Should reach no further action (NFA) with groundwater land use restriction maintained by Marine Corps. Assumption out-year funds are not needed. Will be reevaluated for the FY 2016 CTC.
MCAS New River, NC	Campbell Street Fuel	EL	Spill site. A soil excavation has been funded with PoP through March 2015. Should reach NFA/site close-out (SC).

Installation	Site Name	Category	Comments
	Farm		Assumption out-year funds are not needed. out-year funds. Will be reevaluated for the FY 2016 CTC.
Camp Blanding, FL	Avenue D Spill Remediation	EL	Spill site. A source removal and limited site assessment have been funded. Assumption out-year funds are not needed. Will be reevaluated for the FY 2016 CTC.
Morrisville, NC	JP8 Fuel Spill	EL	Spill site. Approximately $70,000 funded to remove 325 tons of soil, backfill and prepare report to NC Department of Waste Management. Assumption out-year funds are not needed.
Edwards AFB, SD	Kinder Morgan Pipeline Leak	EL	Spill site. $31,042.42 sent in FY 2014 for soil excavation and disposal. Assumption out-year additional funds are not needed. Will be reevaluated for the FY 2016 CTC.
JB McGuire-Dix-Lakehurst, New Jersey (NJ)	SS-12 (Pump House D)	EL	Contamination above state standards exists at this site, but the nature and extent of the contamination has not yet been defined. A supplemental RI has been funded to further delineate both McGuire SS-12 and SS-21 sites. An RI Work Plan has been submitted to the New Jersey Department of Environmental Protection (NJDEP) for review, and field work is anticipated to begin in April 2014. Results are not yet available; therefore, out-year requirements cannot be determined. Site will be reevaluated for the FY 2016 CTC.
JB McGuire-Dix-Lakehurst, NJ	SS-21 (Pump House C)	EL	Contamination above state standards exists at this site, but the nature and extent of the contamination has not yet been defined. A supplemental RI has been funded to further delineate both McGuire SS-12 and SS-21 sites. An RI Work Plan has been submitted to NJDEP for review, and field work is anticipated to begin in April 2014. Results are not yet available; therefore, out-year requirements cannot be determined. Site will be reevaluated for the FY 2016 CTC.

Installation	Site Name	Category	Comments
Fort Hood, TX	Fort Hood Spill (2014)	EL	Spill occurred in February 2014. Emergency response included installation of an intercept trench and groundwater treatment at mobile treatment system. There is no cost for disposal of treatment water (disposal via Ft Hood sanitary treatment sewer). Investigation will be funded in FY 2014, but results are not available. It is expected that an out-year EL exists at this site, but there is not enough information to determine requirements. Therefore, the out-year liability cannot currently be estimated. Revisit in FY 2016 CTC as investigation data are reported.
Tinker AFB, Oklahoma (OK)	Hydrant System Leak	EL	Funded investigation, but results are not yet available. It is expected that an out-year EL exists at this site, but there is not enough information to determine requirements. Therefore, the out-year liability cannot currently be estimated. Revisit in FY 2016 CTC as investigation data is reported.
Tinker AFB, OK	Cracked Valve Leak	EL	Funded investigation, but results are not yet available. It is expected that an out-year EL exists at this site, but there is not enough information to determine requirements. Therefore, the out-year liability cannot currently be estimated. Revisit in FY 2016 CTC as investigation data are reported.
Springfield ANG, OH	Springfield ANG	EL	Spill occurred in Beckley, OH at the 178 Fire Wing. Identified through confirmatory sampling in April 2013 during UST removal. Planned FY 2014 Funding: Environmental Investigation, Sampling, and Reporting ($196,000). Scope includes installation of four monitoring wells. Results are not yet available. It is expected that an out-year EL exists at this site, but there is not enough information to determine requirements. Therefore, the out-year liability cannot currently be estimated. Revisit in FY 2016 CTC as investigation data are reported.

Note 15. Other Liabilities

As of September 30	2014		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 12,497	$ 16,692	$ 29,189
Custodial Liabilities	336,816	0	336,816
Employer Contribution and Payroll Taxes Payable	8,910	0	8,910
Total Intragovernmental Other Liabilities	$ 358,223	$ 16,692	$ 374,915
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and	$ 202,437	$ 0	$ 202,437
Advances from Others	2,156	0	2,156
Contract Holdbacks	1	166	167
Employer Contribution and Pavroll Taxes Pavable	3,414	0	3,414
Contingent Liabilities	34,487	5,257	39,744
Total Nonfederal Other	$ 242,495	$ 5,423	$ 247,918
Total Other Liabilities	$ 600,718	$ 22,115	$ 622,833

As of September 30	2013		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	25,309	5,567	30,876
Custodial Liabilities	407,053	0	407,053
Employer Contribution and Payroll Taxes Payable	7,645	0	7,645
Total Intragovernmental Other Liabilities	$ 440,007	$ 5,567	$ 445,574
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 201,259	$ 0	$ 201,259
Advances from Others	1,220	0	1,220
Capital Lease Liability	19	0	19
Contract Holdbacks	0	154	154
Employer Contribution and Payroll Taxes Payable	9,524	0	9,524
Contingent Liabilities	2,300	5,862	8,162
Total Nonfederal Other Liabilities	$ 214,322	$ 6,016	$ 220,338
Total Other Liabilities	$ 654,329	$ 11,583	$ 665,912

Capital Lease Liability

As of September 30 (Amounts in thousands)	2014 Asset Category			
	Land and Buildings	Equipment	Other	Total
Future Payments Due				
2015	$ 0	$ 0	$ 0	$ 0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	0	0
2019	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments Due	$ 0	$ 0	$ 0	$ 0
Less: Imputed Interest Executory Costs	0	0	0	0
Net Capital Lease Liability	$ 0	$ 0	$ 0	$ 0

Capital Lease Liabilities Covered by Budgetary Resources $ 0

As of September 30 (Amounts in thousands)	2013 Asset Category			
	Land and Buildings	Equipment	Other	Total
Future Payments Due				
2014	$ 0	$ 19	$ 0	$ 19
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
2018	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments Due	$ 0	$ 19	$ 0	$ 19
Less: Imputed Interest Executory Costs	0	0	0	0
Net Capital Lease Liability	$ 0	$ 19	$ 0	$ 19

Capital Lease Liabilities Covered by Budgetary Resources $ 19

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where DLA is acting on behalf of another Federal entity.

Contingent liabilities includes $34.5 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. DLA has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

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

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

The DLA has a reasonably possible minimum loss contingency of $7.2 million. This contingency is from 22 cases involving equal employment opportunity and personnel matters, environmental liabilities, and contract disputes, in which the OGC is a party. The DLA's new system called Automated Workflow and Reporting System (AWARS) used by OGC to project the outcome and value of open cases. The AWARS projects a minimum liability of approximately $7.2 million and a maximum liability of approximately $23.9 million. The minimum level increased in FY 2014 due to one DLA Energy Case that was reclassified from by our DG office from Reasonably Possible to Probable, and one new DLA Troop Support Case.

The DLA Working Capital Fund does not have obligations related to cancelled appropriations for contractual commitments.

Environmental Contingencies

The DLA has developed a process to identify and record contingent environmental liabilities. Where DLA is aware of any pending environmental claims, the appropriate program category will be reported in Note 14, Environmental Liabilities. If the Judgment Fund is responsible for a portion of claims for settlement, an imputed financing amount (i.e. paid on the agency's behalf) will be reflected only for the amount to be paid by the Judgment Fund on behalf of DLA.

Potential Loss Related to Economic Price Clause Contracts

The DLA is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, DLA has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present DLA's total contingent liabilities. Known contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further details.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2014		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 247,765	$ 0	$ 247,765
Total Other Benefits	$ 247,765	$ 0	$ 247,765
Total Military Retirement and Other Federal Employment Benefits:	$ 247,765	$ 0	$ 247,765

As of September 30	2013		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 257,941	$ 0	$ 257,941
Total Other Benefits	$ 257,941	$ 0	$ 257,941
Total Military Retirement and Other Federal Employment Benefits:	$ 257,941	$ 0	$ 257,941

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the DOL Office of Workers' Compensation Programs and provided to DLA at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's (OMB) economic assumptions for 10 year U.S. Treasury notes and bonds. Cost of living adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

Expense Components

The only expense component for 4th Quarter, FY 2014 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

The liability for future workers' compensation 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. Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting are as follows:

2.855% in Year 1
2.855% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2014 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2015	1.73%	2.93%
2016	2.17%	3.86%
2017	2.13%	3.86%
2018	2.23%	3.90%
2019	2.30%	3.90% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2014 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2014 projection to the average pattern for the projections of the most recent three years.

The cost model used for the estimated actuarial liability is updated only at the end of each fiscal year.

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

The DLA interacts with, and is dependent upon the financial activities of the Federal Government as a whole. The DLA's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) while the Military Retirement System (MRS) covers military personnel. Additionally, personnel covered by FERS and MRS also have varying coverage under Social Security. The DLA finances only a portion of the civilian pensions. While reporting and funding civilian pensions under CSRS and FERS is the responsibility of Office of Personnel Management, DLA recognizes an imputed expense for the portion of civilian employee pension's benefit on the Statement of Net Cost. The DLA also recognizes corresponding imputed revenue from the civilian employee pension's benefit on the Statement of Changes in Net Position.

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

Intragovernmental Costs and Exchange Revenue				
As of September 30		2014		2013
(Amounts in thousands)				
Operations, Readiness & Support				
Gross Cost				
Intragovernmental Cost	$	1,796,969	$	1,864,209
Nonfederal Cost		46,117,913		43,236,858
Total Cost	$	47,914,882	$	45,101,067
Earned Revenue				
Intragovernmental Revenue	$	(35,786,906)	$	(36,324,293)
Nonfederal Revenue		(10,261,248)		(4,485,797)
Total Revenue	$	(46,048,154)	$	(40,810,090)
Total Net Cost	$	1,866,728	$	4,290,977
Consolidated				
Gross Cost				
Intragovernmental Cost	$	1,796,969	$	1,864,209
Nonfederal Cost		46,117,913		43,236,858
Total Cost	$	47,914,882	$	45,101,067
Earned Revenue				
Intragovernmental Revenue	$	(35,786,906)	$	(36,324,293)
Nonfederal Revenue		(10,261,248)		(4,485,797)
Total Revenue	$	(46,048,154)	$	(40,810,090)
Total Net Cost	$	1,866,728	$	4,290,977

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

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

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. Public costs may also include actuarial gains/losses on pension, other retirement benefits, and/or other postemployment benefits assumption changes.

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

Some of the amounts presented in this statement do not meet accounting standards and are based on budgetary obligations, disbursements and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2014.

The Department complies with SFAAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates". The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits on the SNC. The SFFAS No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

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

Year Ended September 30, 2014 Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Dollars in Millions
		Total
Appropriations, Statement of Budgetary Resources	$	178.1
Appropriations Received, Statement of Changes in Net Position		178.1
Total Reconciling Amount	$	0

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2014	2013
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 20,291,310	$ 19,531,150
Available Borrowing and Contract Authority at the End of the Period	0	0

The DLA Working Capital Fund only had Reimbursable Obligations Incurred, Category B this reporting period. The table below provides a summary of applicable apportionment categories.

($ billions)	**Category A**	**Category B**	**Totals**
Direct Obligations Incurred	0.0	.2B	.2B
Reimbursable Obligations Incurred	0.0	43.2B	43.2B
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	0.0	43.4B	43.4B

The Statement of Budgetary Resources includes intra-entity transactions because the statements are presented as combined.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2014	2013
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 43,817,102	$ 40,321,504
Less: Spending authority from offsetting collections and recoveries (-)	(41,855,156)	(41,992,973)
Obligations net of offsetting collections and recoveries	$ 1,961,946	$ (1,671,469)
Net obligations	$ 1,961,946	$ (1,671,469)
Other Resources:		
Transfers in/out without reimbursement (+/-)	2,020,940	(106,712)
Imputed financing from costs absorbed by others	174,248	171,168
Other (+/-)	(1)	(1)
Net other resources used to finance activities	$ 2,195,187	$ 64,455
Total resources used to finance activities	$ 4,157,133	$ (1,607,014)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	$ (760,161)	$ 2,401,511
Unfilled Customer Orders	(1,079,979)	550,932
Resources that fund expenses recognized in prior Periods (-)	(13,350)	(1,784)
Resources that finance the acquisition of assets (-)	(31,132,800)	(33,468,062)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	(2,020,940)	106,712
Total resources used to finance items not part of the Net Cost of Operations	$ (35,007,230)	$ (30,410,691)
Total resources used to finance the Net Cost of Operations	$ (30,850,097)	$ (32,017,705)

As of September 30	2014	2013
(Amounts in thousands)		
Increase in environmental and disposal liability	$ 505,890	$ 375,137
Increase in exchange revenue receivable from the public (-)	(48,176)	66,360
Other (+/-)	33,544	12,354
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 491,258	$ 453,851
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 390,674	$ 192,075
Revaluation of assets or liabilities (+/-)	511,710	2,985,368
Other (+/-)		
Cost of Goods Sold	31,755,298	33,184,561
Other	(432,115)	(507,173)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 32,225,567	$ 35,854,831
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 32,716,825	$ 36,308,682
Net Cost of Operations	$ 1,866,728	$ 4,290,977

The Reconciliation of Net Cost of Operations to Budget provides information on the total resources used by DLA, both those received through the budget and those received by other means. It reconciles the budgetary obligations incurred to the net cost of operations for a given reporting period. It articulates and details the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting.

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

DLA adjusted the note schedule in the amount of ($2,294,028.39) to bring it into balance with the Statement of Net Cost. The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems and is included in Other Components Not Requiring or Generating Resources.

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

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

Composition of Other Lines

Resources Used to Finance Items not Part of Net Cost of Operations: Other consists of transfers in without reimbursement for DLA Supply Chain Management, Defense Working Capital Fund transfer of Fund Balance with Treasury to the Component level, IAW section 603, of 4th Quarter, FY 2014 Audited Financial Statement guidance.

Components Requiring or Generating Resources in Future Period: Other consists Employer Contributions to Employee Benefit Programs Not Requiring Current -Year Budget Authority (Unobligated) for – Federal Employees' Compensation Act Civilian Personnel Benefits and actuarial liability estimates for future workers compensation benefits.

Components not Requiring or Generating Resources: Other consists of Cost Capitalization Offsets for internal use software, building improvements and renovations, and other structures and facilities.

Note 22. Disclosures Related to Incidental Custodial Collections

This is not applicable to the DLA WCF.

Note 23. Funds from Dedicated Collections

This is not applicable to the DLA WCF.

Note 24. Fiduciary Activities

This is not applicable to the DLA WCF.

Note 25. Other Disclosures

This is not applicable to the DLA WCF.

Note 26. Restatements

This is not applicable to the DLA WCF.

BLANK PAGE

Defense Logistics Agency
Working Capital Fund

Required Supplementary Information
For the Fiscal Years Ended September 30, 2014 and 2013

BLANK PAGE

Heritage Assets

For Fiscal Year Ended September 30, 2014

HERITAGE ASSETS For Fiscal Year Ended September 30, 2014					
Heritage Asset Categories	Measurement Quantity	As of 10/01/13	Additions	Deletions	As of 9/30/14
Buildings and Structures	Each	4			4
Archeological Sites	Each	NA			NA
Museum Collection Items (Objects, Not Including Fine Art)	Each	NA			NA
Museum Collection Items (Fine Art)	Each	NA			NA

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

The Defense Supply Center – Richmond (DSCR) operates an early nineteenth century plantation house which also serves as the DSCR Officer’s Club. The Bellwood Home is listed on the National Register of Historic Places. In addition, DSCR maintains a Native American monument in honor of Native American culture and two cemeteries.

The fiscal year 2014 categories are defined as follows:

Buildings and Structures

Buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets.

Archeological Site

Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places.

Museum Collection Items

Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. Museum collection items are divided into two subcategories: fine art and objects. Fine art includes paintings, sculptures and other three dimensional art. Objects are current use, excess, obsolete, or condemned material; war trophies; personal property such as uniforms, medals, or diaries, and military equipment.

Heritage Assets Acquisition Method

Heritage Asset	Acquisition Method
Bellwood Club	Part of land purchase for the base
Handicapped ramp for the Bellwood Club	By construction
Gregory Cemetery	Part of land purchase for the base
African American Cemetery	Part of land purchase for the base
Improvements to the African American Cemetery	By construction
Improvements to the Gregory Cemetery	By construction
Native American Memorial	By construction

Stewardship Land

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

DLA has no Stewardship Land.

Real Property Deferred Maintenance

For Fiscal Year Ended September 30, 2014

Property Type	**Current Fiscal Year**		
In Millions of Dollars	1. Plant Replacement Value	2. Required Work (Deferred Maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$40,443	$1,614	3.99%
2. Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	NA	NA	NA
3. Category 3: Buildings, Structures, and Utilities (Heritage assets)	$2.4	NA	NA

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be completed and was delayed to a future period. The amount of real property deferred maintenance is based upon facility Q-ratings found in DLA's real property inventory that represents the cumulative deferred amount for facility restoration and modernization.

Plant Replacement Value (PRV) is the cost of replacing the existing constructed asset at today's standards; adjusted by area cost. PRV includes overhead costs such as planning and design, supervision and inspection, and other construction overhead costs.

The Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. Reported deferred maintenance is the difference between the facility Q rating and the target Q rating, representing the acceptable operating condition. The low value is the mid-point of the Q-2 rating band, representing deferred work valued at 15% of the facility's replacement value. This point equates to DOD's minimum goal for average facility condition. The high value is fully serviceable condition, representing a facility with no deferred requirements.

DLA employs various methodologies to assess facility conditions, from detailed building inspections by engineers and technicians, to occupant surveys, to computer systems that model estimated condition. DLA conducts periodic, on-site facility inspections by qualified engineering staff for a sufficient sample of facilities to gain "benchmark" data to validate the condition assessment methodology as being consistent, repeatable and accurate within the Q-Rating bands.

Q-Rating Bands: Bands allow DLA to group facilities by condition for the purposes of developing investment strategies.

Band	Calculated Rating	Term that generally describes the mid-point of the Bands
"Q-1"	100% to 90%	Good condition
"Q-2"	89% to 80%	Fair condition
"Q-3"	79% to 60%	Poor condition
"Q-4"	59% to 0%	Failing condition

Facility Categories are as follows:

- Category 1 Facilities: enduring facilities required to support an ongoing mission including multi-use Heritage Assets.
- Category 2 Facilities: facilities excess to requirements, or planned for replacement or disposal including multi-use Heritage Assets.
- Category 3 Facilities: heritage assets (building and structure).

BLANK PAGE

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group Overview

Supply Management
DLA Distribution
DLA Disposition

SUPPLY MANAGEMENT ACTIVITY GROUP

The Supply Management Activity Group consists of three supply centers, one support center, two service centers, and several support organizations. The supply centers are located in Columbus, OH, Richmond, VA, and Philadelphia, PA. DLA supports its Military Service customers by managing supply chain business processes that ensure worldwide logistics support is provided at the right time, to the right place, and consistently at the best value in peacetime, emergency, and wartime scenarios. Each supply center acts as a supply chain lead for one or more commodity groups. Each commodity group contains common suppliers, similar items, and to some extent, similar customers. They are formed to improve alignment with industry and customers. The eight supply chains at these three centers include: Aviation, Land, and Maritime (associated with weapon system spare parts and related consumable materiel), Construction and Equipment, Subsistence, Clothing and Textiles, Industrial Hardware, and Medical. The DLA Energy, which is located at Fort Belvoir, VA, purchases, manages, positions, and sells fuel to the Military Services and provides centralized energy supply chain support to meet the energy needs of the military installations. The service centers are: the DLA Logistics Information Service, located in Battle Creek, MI, which manages the Federal Supply Catalog System and provides logistics information products and services for all military and civilian activities; and the DLA Transaction Service, located in Dayton, OH, which provides support to DLA's logistics mission by editing and routing electronic logistics transactions (including maintaining the addresses of customers and suppliers), maintaining network interoperability for the logistics community, and conducting special services and reports.

During FY 2014, DLA supported nearly 1,700 different weapon systems and managed fuel that generated the provisioning of 11.4 million gallons of fuel (on a daily average). By year's end, there were more than 14,400 civilian, 275 active duty military, and 208 military reserve personnel that supported this business area. The Supply Management Activity Group generated revenue which totaled about $45.8 billion during FY 2014. This was an increase of almost $5.2 billion from the previous year.

MISSION

The Supply Management Activity Group's mission is to provide materiel and logistics services that support peacetime and combat operations, combat preparedness, emergency support, and humanitarian aid. These services include the integrated materiel management of nearly 5 million separate line items that support the 8 separate supply chains. The support requirements are dynamic, and DLA continues to adjust its approach in response to evolving changes in national priorities, requirements of the Military Services, technology, and the commercial marketplace.

The primary logistics functions include:

- Supply-chain integration and inventory management;

- Transportation management (shared with DLA Distribution Activity Group);
- Technical management, which guarantees product quality and proper pricing of materiel;
- Procurement management, ensuring DoD gets the best value;
- Logistics data and information collection, management, and distribution and providing for the integration and availability of this information; and,
- Logistics management process and processing of logistics and standard Military Logistics Systems transactions.

STRATEGIC GOALS

The long-term goals of the Supply Management Activity Group are consistent with those in the DLA Strategic Plan. By achieving these goals, DLA will ensure that the supplies and services required by its customers are procured and delivered in the most effective and efficient manner and that these services reflect the customers' concerns for timeliness, quality, and cost. These goals will be achieved through a series of supporting strategies and executed primarily by the supply centers.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Supplier Relationship Management (SRM): SRM is a major transformation effort that encompasses the Agency's entire supplier facing initiatives. The focus of SRM is to forge new relationships and enhance the quality of existing business relationships. These enhanced relationships between DLA and its suppliers will allow the Agency to achieve the underlying goal of having "the right item, right service, right place, right time…every time." Consequently, SRM will affirm DLA as an integral partner in the end-to-end supply chain that links our suppliers to our customers. Detailed below are some of the key initiatives within SRM including Strategic Sourcing, Warstopper Program, Strategic Supplier Alliances, and Supply Chain Alliances:

- **Strategic Sourcing (SS):** SS focuses on stratifying and satisfying customer driven high demand and readiness hardware items through long-term contracting coverage and process improvements. Almost 129,535 of the 3.8 million hardware items managed by DLA are through long-term agreements. Long term contract items made up 76% of DLA spend in FY 2014.
- **Warstopper Program:** This program recognizes that peacetime demand for certain items is inadequate to sustain an industrial base sufficient for readiness and mobilization.

Consequently, extra preparedness measures are required for those items, and that critical industrial capabilities must be preserved to support the Department's readiness and sustainment requirements. In most cases, the Warstopper Program preserves essential production capability by investing in industry responsiveness to a projected surge requirement without purchasing, storing, and managing a finished goods inventory. This concept applies to items such as chemical protective suits, nerve agent antidote auto-injectors, meals-ready-to-eat, and tray pack assemblies. The most recent return on investment (ROI) analysis for the program indicates that from 1993 through 2012 the Warstopper program has offset nearly $5.5 billion in War Reserve Materiel inventory purchases - a return on investment of more than 6:1. DLA expects a similar ROI on the $52.6 million Warstopper Program investment made in FY 2014.

- **Strategic Suppl ier Alliances (SSAs):** SSAs are long-term partnerships formed with DLA's key suppliers, allowing the Agency and the supplier to work together by sharing information and jointly working problem areas. The result is added value for both parties and improved support to the warfighters. There are currently 28 SSAs and each is assigned to a Supplier Relationship Manager, whose primary responsibility is the maintenance and success of the partnership. There are no plans at this time to add additional SSAs.

- **Supply Chain Alliances (SCAs)**: An outgrowth of the SSA initiative, SCAs are alliances with key suppliers who provide both sole source and competitive items. SCAs further the goals of the SRM transformation effort by adding value to both DLA and the supplier. DLA has formed SCAs with 23 suppliers. There are no plans at this time to add additional SCAs. To assist all suppliers with their operational planning, DLA provided them with a tool, the Supplier Requirements Visibility Application, which forecasts 24 months of requirements for both competitive and sole source items. This initiative is essential in achieving the DLA objective of linking supply with demand.

EBS Customer-Relationship Management (CRM): DLA uses standard Enterprise-wide automated management tools and processes to more deliberately understand warfighter needs and meet customer expectations. In March 2006, DLA began using these EBS CRM tools and processes for account management, opportunity management, and customer outreach. In the following month, analytics and service modules were configured and deployed. EBS CRM reached full operational capability in July 2007. In March 2008, EBS CRM was extended to our Supplier Operations business area in order to capture life-cycle documentation of customer issues such as expedite requests. Approximately 7,100 DLA employees now use the system. EBS CRM system enhancements continually improve program reporting, customer outreach, account management, opportunity management and various other service capabilities. Examples of recent and on-going improvements include:

- Continue to increase business area focus within DLA's Customer Interaction Center (CIC) for documentation of customer issues within CRM Service Management (e.g., supporting customer inquiries on the Office of Secretary of Defense's Purchase Card On-Line System (PCOLS) initiative). In addition, we are conducting a Continuous Process Improvement initiative on the CIC's processing of customer emergency requests.

- Implementing CRM Service Management to support documentation of customer service requirements with our Air Force and Navy BRAC Industrial Sites.

- Expanding CRM process areas within DLA Disposition Services business areas.

- Utilization of CRM Account Management in our strategic customer engagement approach.

- Improvement with EBS CRM automatic distribution of survey requests to customers based on set business rules for each type of survey.

PROGRAM PERFORMANCE INDICATORS

The key program performance indicators described below are included as components of DLA's Fusion Center and are tracked closely by the Agency. The display of metrics data in the Fusion Center provides DLA management with access to timely, complete, accurate, and reliable performance and financial data. Metrics are reviewed at the executive level as part of the DLA Executive Board on a quarterly basis and monthly during the J3 Agency Performance Review. In addition, these metrics are key elements in DLA's Performance Based Agreements with the Military Services and are jointly reviewed with them to collaboratively evaluate DLA's performance.

- **Material Availability (MA)** is used to identify performance issues within the logistics pipeline. As such, MA is DLA's overarching metric. MA is used to identify the capability of DLA to immediately issue materiel, both stocked and vendor-supplied, in response to customer requisitions. MA has a direct impact on DLA's operational performance and metrics such as total and aged backorders, timeliness and inventory efficiency. MA is reported as a percent of orders that are immediately issued out of the total number of orders received in the given time period of interest. DLA's overall MA for FY 2014 was 96.0%. The hardware portion of DLA's business performed at 89.6%, which is below the Director's established goal of 91.0%. The Primary Level Field Activities (PLFAs) have action plans in place for improving their supply chain MA throughout the course of FY 2015 which includes agile procurement and maintaining accurate stockage levels while balancing costs. The FY 2015 goals remain unchanged from FY 2014 levels.

- **Total and Aged Backorders (BOs)** reflect gaps in DLA's ability to fill or satisfy customer order requirements in a timely manner and are used to measure the number of orders received that have not been fulfilled by DLA the particular date of interest. Total BOs are customer orders which are in a backorder status for material that DLA can act upon to expedite the fill. There is filtering logic in place that excludes select open orders that automatically go into UFO status as part of the process of filling the order. The total number of all BOs, the number of BOs that are currently over 180 days old (referred to as "aged BOs"), and the number of BOs that are currently over 3 years old are measured. Because backorders create a failure for MA, the two metrics are typically correlated—a high level of backorders generally corresponds to a lower MA. At the close of FY 2014, backorders measured 452,469 across the Agency, with 94,064 in the aged category. For hardware, backorders were at 288,921 against a Director established goal of 208,260. The aged category for hardware measured at 72,159 against a Director established goal of 41,652. Finally, backorders older than 3 years measured at 864, a 37% reduction from the beginning of the fiscal year, but still above the Director established goal of zero. The largest volume of backorders is for DLA stocked items (AAC D). As with MA, the PLFAs have action plans in place to reduce their backorder levels over the course of FY 2015. The FY 2015 goals remain unchanged from FY 2014 levels.

- **On-Hand Purchase Request (PR) Aging** measures the age of all open PRs from their creation date against a standard of 35 days for small PRs (under $150.0 thousand) and 110 days for large PRs ($150.0 thousand and over). This metric was introduced in late FY 2013 with a goal of no less than 85% of large and small open PRs older than the 35 and 110 day award timeliness standards. At the close of FY 2013, On-Hand PR Aging timeliness was at 42.2% for small PRs and 47.4% for large PRs. A number of major DLA initiatives including the Time to Award Team (TTAT) administrative lead time reduction efforts and the Big Ideas are also focused on improving and reducing procurement timeliness. Automated Award Percentages, Long Term Contract Growth Projections, and Time to Award are all related metrics reviewed in both the Agency Performance Review and TTAT Updates.

- **Order Response Time (ORT)** measures the SC responsiveness to Air Force Air Logistics Center (ALC) customer demands for DLA items. Included in each month's population are AF Maintenance document (M-doc) orders created in the reporting month, both filled and remaining on backorder at month end. Age is determined from Julian date in Maintenance document through issue date (date stock is located on base). Any cancellations are removed from population at month end. Management objective is 90% of orders received in a reporting month are filled within two days. Each ALC's ORT is computed using the same logic, methodology, and data source (COPA). Reporting methodology was changed in December 2013. The DLA FY 2013 ORT was 88.7%, which is 1.6% higher than the December 2012 performance of 87.1% but still under the goal of 90%. Performance has continued to steadily improve in FY 2014 at an average of 89%. Focused improvement efforts continue at DLA Aviation to adjust stock positioning and stockage criteria to maximize ALC ORT rates. These efforts include the implementation of Economic SKU Builder (November 12), the implementation of Peak/Next Gen Logic (January 2013), multiple changes in Retail SKU logic (May 2013 and September 2013), a change to allow retail SKUs on IPV items that have depot demand (October 2013), and a significant safety stock investment to improve availability of stock at the ISAs (November 2013). These efforts, along with in-depth local reviews and analysis, will position the ISAs for marked improvement to ORT.

- **Procurement Productivity** measures the Supply Chains response to Purchase Requests (PRs) by awarding either contracts or Purchase Orders and maintaining an acceptable level of backlog, PRs in process. This process includes manual awards, automated awards, placing delivery orders on existing Long Term Contracts and cancellations, as measured against the number of PRs in process. During FY 2014, the Supply Chains reduced PRs in process from 120,424 at the end of October 2012 to 104,002.

- Time To Award Goal: Automated Awards w/o Buyer Assist

    - This metric tracks all Simplified Acquisition Procedure (SAP) awards processed by the automated evaluation system with no human intervention. The Time to Award goal is 10 days. As of September 2014, the 85th percentile measured 17 days, which is down from 32 days in October 2013.

- Time To Award Goal: Manual (SAP) Awards w/Buyer Assist

    - This metric tracks all SAPs processed only by human intervention. The Time to Award goal is 35 days. As of September 2014, the 85th percentile measured 140 days, which is down from 161 days in October 2013.

- Time To Award Goal: Manual (Large) Awards

    - This metric tracks all Large contracts (over SAP), which can only be processed by humans. The Time to Award goal is 110 days. As of September 2014, the 85th percentile measured 281 days, which is down from 356 days in October 2013.

- Time To Award Goal: Long Term Contract (LTC) Awards

    - This metric tracks all LTCs (Delivery Orders can only come from LTC “D-type” contracts), which can only be processed by humans.

    - For LTCs valued at less than $10.0 million (the Time to Award goal is 140 days):
        - As of September 2014, the 85th percentile measured 345 days, which is down from 483 days in October 2013.

    - For LTCs valued at more than $10.0 million (the Time to Award goal is 190 days):

- As of September 2014, the 85th percentile measured 510 days, which is down from 926 days in October 2013.

- **Long Term Contracts (LTCs) Administration**: LTCs are flexible vehicles that remove workload from buyers' desks and provide documented, reduced administrative and production lead times. These reduced lead times allow DLA to reduce inventory investments. The two metrics used are:

  - **LTC Obligation Rate:** Measures the overall success at maintaining coverage and selecting the correct items, and in the right quantities, to be placed on LTC as a percent of total obligations made against items on LTCs during the fiscal year. The end of FY 2014 LTC contract obligations rate was 74%. How we measure LTC performance is under review by DLA HQ management along with collaborative efforts from the PLFAs. Upon approval, the LTC performance tracking tool and goals will be published. Meanwhile, the DLA HQ will continue to track STRATEGIC OPPORTUNITIES initiatives established by the PLFA's.

FINANCIAL PERFORMANCE MEASURES

The DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. Unit cost is a ratio that relates resources to outputs produced. The aim of unit cost is to directly associate total cost to work or output.

The following table depicts the Supply Management unit cost result for the Materiel Supply Chains, DLA Distribution and DLA Disposition Services:

Unit Cost Results	FY 2014 Goal	FY 2014 Actual
DLA Materiel Supply Chains	$1.00	$0.99
DLA Distribution –Processing	$30.37	$30.23
DLA Distribution – Covered Storage	$5.74	$6.44
Disposition Services – Per Line	$56.89	$66.63
DLA Disposition Services – Per Pound	$0.09	$0.26

The DLA 2014 Materiel Supply Chains unit cost was $0.99, which was $.01 lower than the goal established for FY 2014. Unit cost decreased due to lower operating obligations. Unit cost is calculated by dividing operating costs (the sum of total obligations and credits) plus depreciation expense by gross sales at standard.

The DLA Distribution Processing unit cost was $30.23, which was below the goal established for FY 2014 by $0.14 primarily due to actual processing expenses being below plan by

$66.0 million ($403.0 million actual versus $469.0 million planned). Processing unit cost was offset by actual workload being 2.1 million lines below plan (13.3 million lines actual versus 15.4 million planned). The Covered Storage unit cost measures the costs to provide covered storage to the cubic footage used. The actual Covered Storage unit cost was $6.44 or $0.70 above the goal primarily due to actual workload being lower than planned (47.5 million cubic feet actual versus 53.4 million planned). Actual costs were on plan at $306.0 million.

In FY 2014, DLA Disposition Services was not able to pull all of the details to support the unit cost results – particularly in the area of Hazardous Waste disposal (per pound). Some of the reports and data were still not available as of the end of fiscal year 2014. The above unit cost data was based on known workload data captured through the end of fiscal year 2014, but the measured units appear to be under-represented in all areas, driving the unit cost to appear to be artificially inflated.

The DLA also measured and monitored financial performance of its Materiel Supply Chain business segment by comparing the Cost Recovery Rate (CRR) approved in the budget to that which was executed. The CRR is a composite rate that is calculated by dividing its related operating costs by the cost of goods sold; and is used as an aggregate measurement of the costs that DLA incurred to generate a level of sales. The long-term financial goal is to achieve a break-even budget-related accumulated operating result. DLA's composite FY 2014 CRR goal was 13.2%. The actual CRR was 10.0%, which was 3.2% lower than the FY 2014 President's Budget and is attributed to expected costs being lower than plan while sales were lower than plan.

The DLA Energy Unit Cost is comprised of the Petroleum Material Costs and non-product costs (operations costs for fuel services, transportation, storage, and overhead). The Petroleum Product is the acquisition cost of a barrel of petroleum product purchased. Actual unit cost per barrel sold was $0.89 better than planned. This variance can be attributed to a higher composite product cost partially offset by lower non-product cost per barrel sold**.**

Unit Cost Results	**FY 2014 Goal**	**FY 2014 Actual**
Energy Unit Cost per barrel sold	$154.97	$155.86
Petroleum Product Cost per barrel	$133.68	$140.94

FINANCIAL RESULTS

The DLA evaluates financial results based on the solvency of the Agency's Cash position and the ability to meet intended Net Operating Results (NOR) for the fiscal year. It is Agency policy to set prices that achieve an Accumulated Operating Result of zero over the long-term and maintain cash balances that preclude an Anti-Deficiency Act violation.

Overall, the Agency had a negative net operating result of $441.9 million in FY 2014. The primary drivers for the NOR financial loss is the reprogrammings out of $347.5 million from DLA Energy to the O&M, DW account, lower sales for DLA Supply Chain Management and DLA Energy; partially offset by lower expenses/ fuel purchases for DLA SCM/DLA Energy. The Agency's net outlays were $965.8 million due to lower DLA sales, partially offset by lower DLA Energy fuel purchases.

($ in millions)	NOR	Net Outlays
DLA Energy	($ 1,212.8)	$ 52.4
DLA Supply Chain Management	($ 648.5)	$ 911.4
DLA Document Services	($ 5.8)	$ 2.0
DLA	($ -1,867.1)	$ 965.8

DLA DISTRIBUTION

As a DLA primary level field activity, DLA Distribution is the leading provider of global distribution support to America's military including receiving, storing and issuing supplies as well as providing other tailored services to increase warfighter readiness.

DLA Distribution offers best value supply chain solutions through a broad range of services including storage, distribution, customized kitting, specialized packaging as well as transportation support and technology development. We are connected directly with our operational and industrial partners and integral to the success of our National Military Strategy.

Highly skilled employees provide timely distribution services to customers around the globe. In FY 2014, DLA Distribution processed over 14.2 million receipts and issues supporting customer operations worldwide, including support to combat operations, humanitarian assistance missions and a multitude of military exercises.

MISSION

The mission of DLA Distribution is to leverage the global storage and distribution network to enable efficient logistic solutions throughout the DoD and Whole of Government (WoG).

OPERATIONAL GOALS

DLA Distribution will continue to provide flexible and responsive support to the DoD through the delivery of value to our worldwide partners. We will focus on innovative new ways to safely support the services. We will:

- Contribute to the reduction of total supply chain costs.
- Identify and fill workforce planning and development gaps.
- Prioritize, develop, document, and implement standard business processes.
- Address internal threats within DLA.
- Improve operational readiness.
- Sustain Auditability.
- Become the Storage and Distribution (S&D) provider of choice for DoD and WoG.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

DLA Distribution's approach in FY 2015 will ensure core operations are performing at the level needed to fulfill future mission requirements and posture the organization to consolidate all non-tactical S&D work within DoD, WoG, and worldwide partners. Big Idea Initiatives, Audit Readiness and Continuous Process Improvement (CPI) will serve as the foundation of how we will strengthen ourselves internally to continue to build our enabling S&D foundation of people, processes and technology. Additionally, we will focus on shaping senior-level policy to structure the S&D industry within the DoD and federal supply chain under DLA Distribution management.

1. **Understand the Market –** Focus on the customer in order to identify opportunities and threats, define requirements and capture market share. Understand the Market's efforts achieve the Director's "Big Ideas" Improve Customer Service and Decrease Operating Costs.

2. **Create the Value –** Consolidate, standardize and integrate optimized S&D solutions throughout the total DoD supply chain in order to balance total cost and readiness. Create the Value supports the Director's "Big Ideas" Rightsize Inventory, Decrease Operating Costs and enables Audit Readiness.

3. **Deliver the Value –** Monitor and manage operations in order to execute the mission on time and to our high standard with quality, safety and flexibility. Deliver the Value supports the DLA Director's "Big Ideas" Decrease Direct Material Costs, Decrease Operating Costs, Improved Customer Service and Audit Readiness.

4. **Build the Foundation –** Continue to develop/sustain processes, people and enabling technologies /tools for standard processes, built in quality and a workforce that is trained to standard. Build the Foundation supports the Director's "Big Ideas" Improve Customer Service and enables Audit Readiness.

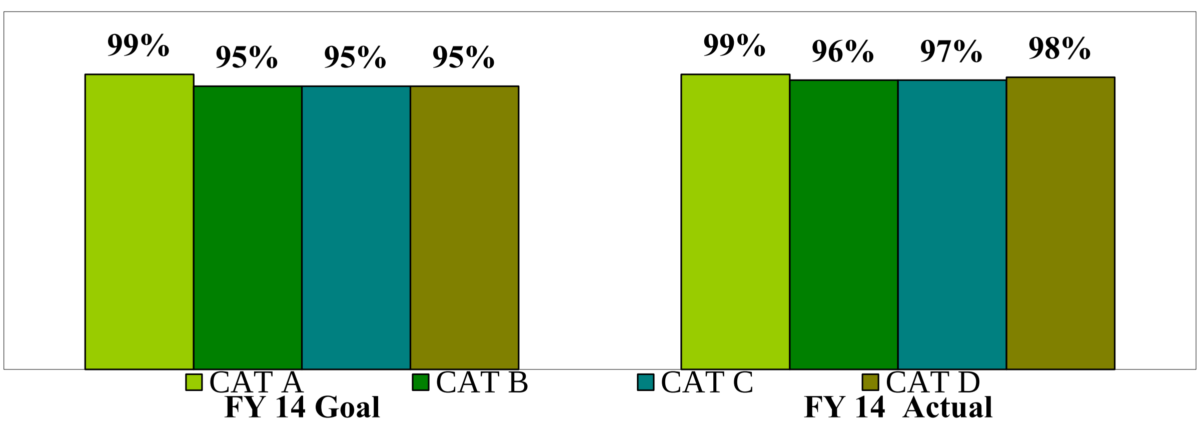
At the conclusion of FY 2015 we will have implemented the outlined programs which will improve customer operational readiness and decrease DoD total supply chain costs. We will have shaped DLA Distribution in a resource constrained environment to meet future challenges, provide flexible and responsive support, increase the value of our market share and achieve and sustain an unqualified clean audit opinion.

PROGRAM PERFORMANCE INDICATORS

Inventory Record Accuracy: This performance metric measures the accuracy of inventory records using statistical sampling techniques, which are performed semi-annually. Starting in FY 1999, DLA incorporated established DoD stratification and tolerance levels into the inventory sampling methodology. The DoD plan takes into consideration item characteristics such as dollar value and provides a means to focus resources commensurate with the significance of the errors found.

The FY 2014 goals for inventory accuracy were: 99% for items in the high dollar strata (Category A) and 95% for the remaining three strata.
Category A: Unit Price > $1,000
Category B: Unit of Issue Not Equal to Each **OR** On-Hand Balance > 50 **AND**
Extended Dollar Value < $50,000 **OR** Activity > 50 per year
Category C: On-Hand Balance < 50 **AND** Date of Last Inventory > 24 Months
Category D: All Others

INVENTORY ACCURACY: % Accuracy of Inventory Records



The FY 2014 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2014, DLA Distribution continued an aggressive schedule for the conduct of sample inventories for all categories of materiel at each of its Distribution

Centers. Further, DLA Distribution is providing continuous training in the related distribution responsibilities and processes.

Workload Processing: DLA Distribution strives to continuously maintain performance of key indicators utilizing the least amount of resources to provide the best value to our customers. Our receipt, issue, container utilization and denial rate performance follows:

Performance Indicators reported in DLA Monthly Agency Performance Review (APR)

RECEIPTS:	FY14 TOTAL GOAL %	FY14 (YTD EOM SEP) TOTAL ACTUAL %
Induction		
Percentage of receipts that met the standards against the total lines of material inducted at DLA Distribution Centers to Include:		
• New Procurement Tailgate to Induction (% inducted in 24 hrs.*)	90%	91.62%
• Customers Returns Tailgate to Induction (% inducted in 24 hrs.*)	90%	92.36%
• RDOs Tailgate to Induction (% inducted in 24 hrs.*)	90%	87.75%
• STOs Tailgate to Induction (% inducted in 48 hrs.*)	90%	95.06%
STOW:		
Percentage of receipts that met the standards against the total lines of material stowed at DLA Distribution Centers to include:		
• New Procurement Induction to Stow (% stowed in 7 days)	90%	96.78%
• Customers Returns Induction to Stow (% stowed in 10 days)	90%	97.30%
• RDOs Induction to Stow (% stowed in 10 days)	90%	94.34%
• STOs Induction to Stow (% stowed in 10 days)	90%	96.71%

ISSUES:		
Percentage of issues that met the standards against the total lines of material issued to our customers to include:		
• High Priority Requisitions (% shipped in 1 day)	85%	82.25%
• Routine Requisitions (% shipped in 3 days)	85%	83.54%
• Routine Military Service Redistributions (% shipped in 3 days)	85%	88.09%
• Routine DLA Redistributions (% shipped in 5 days)	85%	89.81%
• Dedicated Truck (% shipped by Next Scheduled Departure Date)	85%	79.79%
DENIALS:		
Denial Rate: Percentage of issues unavailable for orders due to material shortage against the total number of issues made.	.45%	0.32%

FINANCIAL PERFORMANCE MEASURES

DLA Distribution measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Distribution unit cost results for processing and storage cost rates (the figures are as of the end of September FY 2014).

Unit Cost Results	**FY 2014 Goal**	**FY 2014 Actual**
Unit Cost-Total Composite Processing Rate	$30.37	$30.23
Unit Cost-Covered Storage	$5.74	$6.44

The Unit Cost-Total Composite Processing Rate measures processing costs (direct, indirect, and applied overhead) relative to the number of line items (receipts and issues) processed. The actual Unit Cost-Total Composite Processing Rate was below the goal established for FY 2014 by $0.14 primarily due to actual processing expenses being below plan by $66.0 million ($403.0 million actual vs $469.0 million planned). Processing unit cost was offset by actual workload being 2.1 million lines below plan (13.3 million lines actual vs. 15.4 million planned).

The Covered Storage unit cost measures the costs to provide covered storage to the cubic footage used. The actual Covered Storage unit cost was $6.44 or $0.70 above the goal primarily due to actual workload being lower than planned (47.5 million cubic feet actual vs. 53.4 million planned). Actual costs were on plan at $306.0 million.

DLA DISPOSITION SERVICES

The DLA Disposition Services operates through a central location headquartered in Battle Creek, MI, and 128 locations throughout the world. DLA Disposition Services sites receive, classify, segregate, demilitarize, account for, and dispose of excess materiel IAW all applicable laws and regulations. The reutilization of excess materiel by DoD customers reduces their need to purchase new materiel. In FY 2014, materiel with an estimated acquisition value over $ 38.0 billion was turned in to Disposition Services and $1.68 billion was reutilized within DoD. DLA Disposition Services also oversees the demilitarization and disposal of the remaining property through transfers, donations, and sales, or its ultimate disposal - as in the case with hazardous waste. The business services provided by this activity group generated revenues of approximately $301.0 million in FY 2014. By year’s end, this activity group employed 1,154 civilians, 14 active duty personnel (11 filled), and we are supported by 6 reserve units with 212 service members.

MISSION

In support of the DLA mission, DLA Disposition Services supports the warfighter and protects the public by providing world-wide reverse logistics solutions. To perform the mission, DLA Disposition Services manages the reutilization, transfer, donation, or sale of DoD personal property, as well as, the disposal of hazardous waste items no longer needed for national defense. Due to the type of materiel that passes through the disposal system, DLA Disposition Services also safeguards national security in a cost efficient and operationally effective manner, conserves valuable natural resources, and protects the environment.

STRATEGIC GOALS

The long-term goals established by DLA Disposition Services are consistent with the goals contained in the DLA Strategic Plan and support the five Big Ideas. Our goal is to become the Department of Defense’s reverse logistics Center of Excellence. DLA Disposition Services utilizes an Annual Operating Plan that contains initiative descriptions and plans for the current fiscal year and organizational metrics.

Accordingly, goals of DLA Disposition Services include: providing quality support to the warfighter, mitigating risks to national security by strengthening the disposal process and inventory accountability, and ensuring taxpayer dollars are spent appropriately. DLA Disposition Services continues to balance the maximum reutilization of property with controls over potential vulnerabilities. As such, DLA Disposition Services is committed to eliminating the release of potentially harmful property to the public.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

IMPROVING CUSTOMER SERVICE

Joint Force Integrated Expeditionary Capability: DLA Disposition Services developed a synchronized and Joint Force integrated expeditionary capability that is able to deploy and provide disposal support to the full range of military operations and/or humanitarian assistance missions while resourcing expeditionary equipment sets that augment this capability. This force combines our 6 Disposal Remediation Teams (DRTs) of military reservists with a force of Civilian Expeditionary Workforce (CEW) personnel. These teams are trained on expeditionary skills through a Mission Essential Task List and training methodology that builds on individual and collective skill training iterations validated through an annual readiness exercise (see OCORT below).

Expeditionary Site Se t (ESS): DLA Disposition Services is in the process of building and staging one ESS training package and three deployment-ready ESS packages to support worldwide operations. The ESS training package is complete and being utilized to familiarize and certify Civilian Expeditionary Workforce (CEW) and Expeditionary Disposal Remediation Team (EDRT) members for deployment and serve as a contingency set for additional capability. These sets will be established by the end of FY 2015 with ESS 1 as a Strategic Reserve in DSD Central staged by January 2015, ESS 2 staged for Pacific Command support by 3rd Quarter, FY 2015. Response to ongoing requests for support to OPERATION UNITED ASSISTANCE (OUA) in AFRICOM, portions of ESS 3 are being prepared for possible deployment as requested by the OUA JTF.

Overseas Contingency Operations Readiness Training (OCORT): In June 2014 DLA Disposition Services conducted the OCORT with nine CEW and 43 EDRT personnel. A full ESS Expeditionary Site Set was on hand to support hands-on training, set up and demilitarization operations. OCORT is part of a training continuum that includes a revised curricula for our Expeditionary Workforce Operations Course (EWOC) training individual and collective skills centering on establishment and operation of an ESS and Joint Incremental Duty Training (JIDT), a home station-based collective training event allowing each DRT to combine with local CEW personnel as a means to train up to mission proficiency at each year’s OCORT. This training strategy is part of an overall Disposal Forces Generation (DFORGEN) model that rotates DRTs as available for deployment, trained/ready or in reset based IAW DLA J9 dwell time guidance for our Reserve Team.

In short, DLA Disposition Services has retooled our DRT and CEW manning, equipping, training and sustaining capability to provide our Warfighting customers a rapidly deployable, scaleable and modular disposal capability to meet exercise and contingency planning requirements.

Customer Relationship Management: In FY 2014 DLA Disposition Services developed a monthly customer survey process. We set a goal to maintain a 90% customer satisfaction rate and 16% response rate. The Customer Engagement Strategy (CES) was expanded to include documentation of G15 level and higher customer visits. In FY 2014:

- The customer satisfaction rate ended with an overall rate of 94% for FY 2014, consistently exceeding the 90% goal each month.

- The survey response rate ended with an overall rate of 20% for FY 2014, well above the 16% goal.

REDUCE OPERATING COSTS

Price Reductions in Awarded Contracts: The use of Reverse Auctions (RAs) as an automated, final negotiation technique in competitive hazardous waste (HW) disposal, operational type acquisitions and commercial sales contracts has resulted in an estimated direct savings of over $9.9 million. Additionally, Disposition Services has substantially revamped the Contract Line Item Number (CLIN) structure for HW disposal contracts. The resultant contracts, mirror commercial practices by identifying HW in container sizes, not pounds, and will be based on HW profiles. This will reflect the true disposal facility market cost. It will also eliminate, not shift, contractor risk and result in fewer task order modification requirements.

Improved Acquisition Execution: In FY 2014, DLA Disposition Services implemented several initiatives to improve acquisition and acquisition management efficiencies and effectiveness. The average Acquisition Lead Time (ALT) for contracts above $150,000 was decreased from 210 days in (FY 2013) to 135 days in FY 2014. This efficiency occurred as a result of implementation of changes to the DLA acquisition guidance that streamlined processes as well as continued and renewed emphasis on ALT by the Disposition Services acquisition staff. Also, during FY 2014, the number of Government Purchase Card (GPC) holders was reduced from 120 to 55. This reduction should reduce program risk and increase effectiveness. Small Business goal achievement continues to be a priority of Disposition Services. Disposition Services will exceed the Small Business goal of 68.2% by over 2%. During FY 2014, 100% of solicitations issued for long term contracts were set aside for small business. This dedication to maximize support to small business will continue to produce favorable results for the next 5 years.

Usable Property Sales Term Contract: DLA Disposition Services currently has two usable property term sales contracts; one contract consists of Rolling Stock property and the other encompasses all other usable property. The Rolling Stock contract provides Disposition Services with 75.29% of the gross sales proceeds once the contractor resells the property. The Non-Rolling stock sales contract is based on a percentage of the acquisition value and provides the government with a total of 4.35% of an item's acquisition value. All property, prior to being sold, is checked to ensure it is safe for sale. In addition, all property that is controlled or expected to be controlled is added to a "Do Not Sell" list that is provided to the contractor to systemically remove property from their marketing or retrieve items in their inventory for return to DLA Disposition Services. The sales contracts have performance based incentives to prevent the release of controlled property. Filters are in place to catch controlled property prior to it being released to the general public.

Scrap Venture (SV): The SV contract will expire in the third quarter of FY 2015. The following are a few steps that have been taken during FY 2014 in preparation for a replacement term scrap contract. A request for comments on the SV contract was sent to the impacted field activities and responses were received. DLA Office of Operations Research and Resource Analysis conducted a Rough Order of Magnitude Business Case Analysis on the DLA Disposition Services Scrap Sales Program and briefed their findings to DLA Disposition Services Management Team. An Industry Meeting is scheduled for October, 1 2014 where our main goals and vision for the future of scrap recycling will be shared with the industry leaders, whom are expected to respond in kind with comments and recommendations.

REDUCE INVENTORY

Long Term Storage (LTS) Facility: DLA Disposition Services established a LTS facility at the DLA Land and Maritime to retain serviceable Demil Code B Munitions List Items and Demil Code Q Commerce Control List Items (CCLI). Because these items were determined to be sensitive for reasons of national security, they are no longer eligible for transfer, donation, or sale. The Materiel Disposition Policy for Demil B and Sensitive Q CCLI was signed July 12, 2013. Property with no demand within two years or more is eligible for ultimate disposal. In FY 2014, Disposition Services processed 129,972 downgrades consisting of 5,535 National Stock Number`s (NSNs), representing 8,203,926 pieces, with an Acquisition Value of $72.0 billion. This has freed up 350,000 square feet of warehouse space. Eligible Items left to process: 40,834 DTIDs, 30,572 NSN and 924,977 pieces. The Recycling Control Point (RCP) is currently holding 65,934 documents (DTIDS) consisting of 30,286 NSN's representing 3.1 million pieces and an Acquisition Value of $149.0 million.

ACHIEVE AUDIT READINESS

Targeted Program Oversight: DLA Disposition Services has a rigorous Compliance Assistance Program designed to evaluate the effectiveness and compliance with existing regulations and policy, ensure our internal controls are in place and working, and identify areas in need of improvement or controls. The program consists of two primary levels of oversight: Self-Assessments and Effectiveness Reviews. Each level of oversight has specific elements designed to provide a comprehensive review:

- **Self-Assessments (SA) –** SAs, completed two times annually, essentially are a “look in the mirror” for a DLA Disposition Services Field Site on performance against specific regulations. Through sampling and review of documentation and inventory, SA results provide management a measure of overall compliance with existing regulations and procedures. SAs also provide a learning opportunity by requiring self-conducted compliance checks on those areas considered most important to DLA Disposition Services.

- **Effectiveness Reviews (ER) –** ERs are independent reviews of field sites’ effectiveness and compliance with existing operational and environmental regulations and policies. ERs can be tailored to focus on specific DLA Disposition Services performance areas or provide a comprehensive evaluation by reviewing processes, documentation, and inventory. Sites receiving ERs are provided minimal advance notice in order to provide DLA Disposition Services a better indicator of compliance and sustained performance. Baseline ERs are also conducted at sites that have new leadership. ER Teams are comprised of personnel from DLA Headquarters, Disposition Services, and field sites. At the conclusion of each ER, the out-brief provides the results, impact, and recommended corrective actions to the DLA Disposition leadership. This out-brief provides visibility of significant issues to the DLA Disposition Services leadership early in the assessment process ensuring expeditious resolution. DLA Disposition Services conducted 34 ERs in FY 2014. Additionally, Disposition Services conducts follow-up reviews at those sites that did not meet standards during the initial ER and six follow up visits were conducted in FY 2014.

- **Law Enforcement Support Office (LESO):** LESO conducts program management on behalf of OSD, as delegated by DLA IAW Section 1033 of the FY 1997 National Defense Authorization Act and 10 United States Code 2676a. LESO transfers excess DoD personal property to Law Enforcement Agencies (LEAs), with a preference to counter-drug and counter-terrorism agencies in coordination with the Office of National Drug Control Policy (ONDCP), OSD, Department of Justice and additional regulatory guidance defined in the Defense Materiel Disposition Manual (DoD 4160.21-M).

- **LESO Customer Support – Strategic Partnerships.** LESO transferred $99.8 million (Original Acquisition Value) of property to LEAs, comprised of 49,447 line items. This total increased from the entire prior fiscal year by 118% in acquisition value and 1.45% in requisitions. LESO briefed at the National Sheriff’s Association Conference and the Police Securities Expo that afforded the opportunity to share what the LESO program is about, the rules, and knowledge of property to be excess in the future. This had a positive impact on the abilities of the law enforcement community to requisition and properly maintain property through the program.

- **LESO Program Compliance – Property Accountability**. Program Compliance Reviews (PCRs) are a regulatory requirement for each participating state (49), territory

(3), and the District of Columbia. LESO conducts PCRs biannually; and, in FY 2014, LESO completed 28 reviews.

Controlled Property Branches (CPBs): DLA Disposition Services has six centralized sites in CONUS along with operations in the Pacific and Europe performing controlled property functions that provide better accountability of items coming into the disposal accounting system. All batch lots and most Local Stock Numbers are sent to these sites to identify a NSN if it exists and verify the property's eligibility for release outside of DoD. At the beginning of FY 2011, the Controlled Property Centers (CPCs) were reorganized with operations changing from being centrally managed by a single program manager to the Local Area Managers. Therefore, in May FY 2011, the CPCs changed to CPBs under the operational control of the local disposal activity. In FY 2014, the sites performing CPB functions received over 5,700 batch lots, inspected more than 419,000 lines of property, and determined over 4,200 lines of property were ineligible for release outside of DoD control within the batch lots. In addition to the batch lots, CPBs reviewed approximately 37,000 Local Stock Numbers and identified over 8,000 that were initially turned in as requiring no controls that actually required demilitarization or trade security controls prior to release from DoD.

Controlled Property Verification Office (CPVO): The CPVO continually refines the processes to review items entering the Disposition Services inventory and destined for release to the public through a series of reviews including: 100% review of NSN received (worldwide - weekly), sales delivery orders from the field sites, Q-Tool (sales partner listing) and the sales partner's web site of items offered for sale. The CPVO works closely with the DoD DEMIL Coding Management Office (DDCMO) to coordinate the validation of the assigned FLIS DEMIL code for all NSNs that have not been previously verified by the DDCMO. The CPVO has achieved an 89% approval rate for demilitarization (DEMIL) code challenges and maintains timeliness metrics for each review process. In FY 2014, the CPVO reviewed over 2.5 million items and removed over 37,000 items from sale. The CPVO maintains several automated research applications and EBS business rules that identify controlled property for all Disposition Services field sites. These applications include the Controlled Property Research Tool, and the Do Not Sell List which is distributed to the sales contractor, Nuclear Weapons Related Material and other controlled property categories including, but not limited to, F-14 components, body armor, military camouflage clothing and controlled laboratory equipment. Controlled property is sent a Disposition Services demilitarization facility for destruction or mutilation.

Continuous Process Improvement (CPI): CPI is a valuable tool in achieving effectiveness and efficiency. DLA Disposition Services' goal is to make our processes more efficient, drive down costs where possible, increase our performance and customer support and meet our diverse customers' needs while continuing to maintain our focus on uncompromised protection of national security. DLA Disposition Services' continuous improvement approach is to weave an analytical, self-improving mindset throughout our culture, while embracing both formal and informal CPI thought processes. CPI is used to actively transform our workplace and enterprise activities to achieve our vision as "the preferred choice for world-wide reuse and disposal solutions, and an integral partner in safeguarding national security and improving efficiency and effectiveness in the global supply chain." In FY 2014, DLA Disposition Services conducted a Lean Six Sigma study on the Disposition Services receiving process. The team reduced the receiving steps by 38% and increased the per person production rate from 4 line items per person (IPH) per hour to form a sustainable 10 IPH to over 20 IPH.

PROGRAM PERFORMANCE INDICATOR

Reutilization/Transfer/Donation (R/T/D): This indicator represents the aggregate number of line items of the property reutilized, transferred, and donated. The indicator applies to the available assets that are economically reused. It addresses disposal via reutilization by another defense customer, transfer to another federal agency, or donation to an eligible state, local government, or non-profit organization. R/T/D dispositions indicate support provided to DoD, Federal government, and state and local agencies. Customer utilization of these programs increases troop readiness, avoids new procurement costs, and provides needed items to agencies at no cost. In FY 2014, DLA Disposition Services successfully reutilized, transferred, or donated over 206,000 line items of excess property with a value of over $3 billion.

Humanitarian Assistance/Disaster Relief: DLA Disposition Services supported humanitarian assistance and disasters at home and abroad. In FY 2014, DLA Disposition Services issued 1,124 line items with a value of $10.2 million to DoD Humanitarian Assistance Program and 1,149 line items with a value of over $21.4 million to the U.S. Agency for International Development.

FINANCIAL PERFORMANCE MEASURES

DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. Cost is defined as expenses incurred in support of or attributed to the service performed. DLA Disposition Services is measured on two unit cost goals: Cost per Line item and Cost per Pound. These measures recognize that all property received incurs processing costs; that certain types of excess property require costly special handling, such as demilitarization, without generating any economic return to DoD; and that partnerships with the private sector incur cost to the government. The DLA Disposition Services unit cost structure is flexible to remain viable during periods of significant process changes.

Cost per Line Item is calculated by dividing the total cost of three unique processes by the number of line items received and processed. The three processes that comprise this unit cost goal are:

- Receiving – cost associated with the stock, store and issue (logistics) of useable property;

- Reutilization/Transfer/Donation – cost associated with reutilizing, transferring and donating of excess personal property divided by line items of property; and

- Useable Sales – cost associated with the public sale of useable surplus personal property.

Cost per Pound is calculated by dividing the total costs of two unique processes by the number of pounds received and processed. These unique processes are:

- Proper disposal of hazardous waste – cost to dispose (environmentally regulated); (NOTE: due to system deficiencies, cost per pound for hazardous waste disposal was not able to be calculated for FY 2014 actuals at this time and

- Non-hazardous item destruction – cost to destroy non-hazardous items.

The table below depicts the unit cost results for each category.

Financial Performance Measures	FY 2014 Goal	FY 2014 Estimated Actuals
Cost per Line Item	$56.89	$66.23
Cost per Pound	$0.09	$0.26

Note: DLA Disposition Services recently completed a Reutilization Business Integration deployment in April 2013 which has limited their reporting capability. In FY 2014, DLA Disposition Services was not able to pull all of the details to support the unit cost results – particularly in the area of Hazardous Waste disposal (per pound). Some of the reports and data were still not available as of the end of FY 2014. The above unit cost data was based on known workload data captured through the end of FY 2014, but the measured units appear to be under-represented in all areas, driving the unit cost to appear to be artificially inflated.

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2014 and 2013

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING BALANCE SHEET
For the Years September 30, 2014 and 2013
(In Thousands)

		2014		2013
ASSETS (Note 2)				
Intragovernmental:				
Accounts Receivable (Note 5)	$	1,593,640	$	1,367,350
Other Assets (Note 6)		124,925		124,925
Total Intragovernmental Assets		1,718,565		1,492,275
Accounts Receivable, Net (Note 5)		992,945		899,964
Inventory and Related Property, Net (Note 9)		18,626,636		18,902,854
General Property, Plant and Equipment, Net (Note 10)		1,626,960		1,944,439
Other Assets (Note 6)		37,282		39,196
TOTAL ASSETS	$	23,002,388	$	23,278,728
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	116,546	$	101,837
Other Liabilities (Note 15 & 16)		373,294		444,055
Total Intragovernmental Liabilities		489,840		545,892
Accounts Payable (Note 12)		1,871,696		2,504,983
Military Retirement and Other Federal Employment Benefits (Note 17)		235,941		247,050
Environmental and Disposal Liabilities (Note 14)		1,076,030		570,140
Other Liabilities (Note 15 & Note 16)		242,793		214,969
TOTAL LIABILITIES	$	3,916,300	$	4,083,034
NET POSITION				
Cumulative Results of Operations - Other Funds	$	19,086,088	$	19,195,694
TOTAL NET POSITION		19,086,088		19,195,694
TOTAL LIABILITIES AND NET POSITION	$	23,002,388	$	23,278,728

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Program Costs		
Gross Costs	$ 47,635,200	$ 44,835,396
(Less: Earned Revenue)	(45,783,007)	(40,561,345)
Net Program Costs Including Assumption Changes	1,852,193	4,274,051
Net Cost of Operations	$ 1,852,193	$ 4,274,051

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 19,195,694	$ 21,940,859
Beginning balances, as adjusted	19,195,694	21,940,859
Budgetary Financing Sources:		
Appropriations used	178,106	230,135
Nonexchange revenue	(192)	(863)
Transfers-in/out without reimbursement	(623,425)	1,240,040
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	2,018,598	(106,688)
Imputed financing from costs absorbed by others	169,501	166,262
Other (+/-)	(1)	-
Total Financing Sources	1,742,587	1,528,886
Net Cost of Operations (+/-)	1,852,193	4,274,051
Net Change	(109,606)	(2,745,165)
Cumulative Results of Operations	$ 19,086,088	$ 19,195,694
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations transferred-in/out	178,106	230,135
Appropriations used	(178,106)	(230,135)
Net Position	$ 19,086,088	$ 19,195,694

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years September 30, 2014 and 2013
(In Thousands)

	2014	2013
Budgetary Resources:		
Recoveries of prior year unpaid obligations	$ 5,333,258	$ 2,815,849
Other changes in unobligated balance (+ or -)	(5,680,758)	(1,421,809)
Unobligated balance from prior year budget authority, net	(347,500)	1,394,040
Appropriations (discretionary and mandatory)	178,106	230,135
Contract Authority (discretionary and mandatory)	43,341,472	39,822,736
Spending Authority from offsetting collections (discretionary and mandatory)	347,501	(1,394,040)
Total Budgetary Resources	$ 43,519,579	$ 40,052,871
Status of Budgetary Resources:		
Obligations Incurred	43,519,579	40,052,871
Total Budgetary Resources	$ 43,519,579	$ 40,052,871

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years September 30, 2014 and 2013
(In Thousands)

		2014		2013
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	$	22,296,783	$	24,631,449
Obligations incurred		43,519,579		40,052,871
Outlays (gross) (-)		(38,052,516)		(39,571,688)
Recoveries of prior year unpaid obligations (-)		(5,333,258)		(2,815,849)
Unpaid Obligations, end of year		22,430,588		22,296,783
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)		(10,159,502)		(9,722,602)
Change in uncollected pymts, Fed sources (+ or -)		871,053		(436,901)
Uncollected pymts, Fed sources, end of year (-)		(9,288,449)		(10,159,502)
Obligated balance, start of year (+ or -)		12,137,281		14,908,848
Obligated balance, end of year (+ or -)	$	13,142,139	$	12,137,281
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	43,867,078	$	38,658,831
Actual offsetting collections (discretionary and mandatory) (-)		(37,088,696)		(38,471,357)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)		871,053		(436,901)
Budget Authority, net (discretionary and mandatory)	$	7,649,435	$	(249,427)
Outlays, gross (discretionary and mandatory)		38,052,516		39,571,688
Actual offsetting collections (discretionary and mandatory) (-)		(37,088,696)		(38,471,357)
Outlays, net (discretionary and mandatory)		963,820		1,100,331
Agency Outlays, net (discretionary and mandatory)	$	963,820	$	1,100,331

BLANK PAGE

Defense Logistics Agency
Working Capital Fund

DLA Document Services Activity Group Overview

DLA DOCUMENT SERVICES ACTIVITY GROUP

The DLA Document Services is responsible for printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated services to include: document workflow, conversion, electronic storage and output, and distribution of hard copy and digital information. DLA Document Services provides time sensitive, competitively priced, high quality products and services that are either produced in-house or procured commercially DLA Document Services manages its mission through a headquarters, located in Mechanicsburg, PA, and a worldwide network of 144 production facilities. During FY 2014, DLA Document Services earned more than $264.1 million in revenue and employed 683 civilians at year-end. Major customers were: Navy (32.7%), Defense Agencies (28.3%), Army (19.9%), Air Force (14.1%) and non-DoD customers (5.0%).

MISSION

The mission of DLA Document Services is to provide best value document automation and management services in support of America's Armed Forces and Federal Agencies. The DLA Document Services' value to DoD is characterized by two elements. First, DLA Document Services provides a full portfolio of best value document services ranging from traditional offset printing, through on-demand output, to online document services and workflow. Second, DLA Document Services actively functions as a transformation agent moving DoD towards the use of online documents and services. These services include building libraries of digital documents to permit online access, providing multifunctional devices (that print from networks, copy, fax and scan) in customer workspaces, and converting paper documents to target digital formats.

STRATEGIC GOALS

DLA Document Services is committed to the following goals:

- Serving as a major catalyst in transforming business by revolutionizing document automation services;
- Rapidly utilizing technology for agile and responsive internal business solutions;
- Aggressively pursuing business relationships with government, industry, and suppliers;
- Ensuring the DLA Document Services workforce is enabled to deliver and sustain world-class performance;
- Striving to reduce costs, simplify organizational structure, eliminate unnecessary facilities, and ensure that equipment and personnel are commensurate with workload; and,

- Aligning processes to focus on improving the quality of products and services while meeting or exceeding customers' delivery requirements.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Department of Navy's Mandatory Guidance on Copiers, Printers, Fax Machines, Scanners and Multi-functional Devices Policy was signed by the Department of Navy (DON) Chief Information Officer (CIO) January 2013. The policy established DLA Document Services as the single manager for DON and the USMC managed print services. DLA Document Services started to provide all required services to manage and deliver requirement assessments, device procurement, planning, testing, training, sustainment and disposal. DLA has begun managing the approximate 70,000 printing related devices throughout the DON and the USMC.

Department of Navy (DON) DLA Mandatory Print Device Initiative – The DON policy on office document devices - Copiers, Printers, Fax Machines, Scanners and Multi-functional Devices Policy was signed by the DON CIO in January 2013. The policy established DLA Document Services as the single manager for Navy and Marine Corps office document devices. When fully implemented, DLA will manage the approximately 70,000 printing related devices throughout the DON and the USMC.

DLA Shipboard Multipurpose Copier Program (SMCP) implementation began in late FY 2013. The SMCP provides multipurpose copier devices and production print devices that meet Naval Sea Systems Command certifications for Shipboard use. The program covers all Navy Ship Commands, Submarine Forces Commands, the Military Sealift Command and seagoing units of the Fleet Marine Force. Services include provision of devices, supplies, technical services, parts, device training and logistics support to maintain the devices throughout the fleet.

The National Geospatial-Intelligence Agency (NGA) Maps On-Demand program management began transitioning to DLA Document Services in FY 2013. DLA Document Services has developed a maps on-demand capability, enabling on-demand output of NGA maps/charts. This initiative results in the transition of bulk printing, warehousing and shipping to remote on-demand output, ultimately providing a cost savings to the Department. The NGA Deputy Director agreed to DLA assuming full production responsibility for maps/charts and CDs/DVDs starting in January 2014. Maps/charts and CDs/DVDs are being produced at seven on-demand Document Services' facilities.

PROGRAM PERFORMANCE INDICATORS

Quality of Products and Services: This performance metric measures customer satisfaction with quality of finished product as a percentage of customers ranking DLA Document Services quality performance as "satisfied" or "very satisfied." DLA Document Services uses a survey, professionally prepared and administered by an independent entity, to determine quality of finished product rating. DLA Document Services achieved its goal of 95%, with a weighted overall quality of products and services rating of 94%, with a 2% margin of error. The quality of products and services for core printed products and services was 94%.

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking DLA Document Services performance as “satisfied” or “very satisfied.” DLA Document Services uses a survey, professionally prepared and administered by an independent entity, to determine an overall customer satisfaction rating. The most current overall satisfaction of 89%, with a margin of error of 2%, was below the 93% goal. The satisfaction level for the core business of printing products and services was 93%, which meets the 93% goal.

FINANCIAL PERFORMANCE MEASURES

In addition to program performance measures, DLA Document Services measures the effectiveness of program budgeting and execution with a unit cost performance measure. It measures the total units produced relative to the total cost to produce those items.

Unit Cost Results	FY 2014 Goal	FY 2014 Actual
Unit Cost per In-House Production Unit	.1177	.1649

DLA Document Services produced 23% less in-house units than planned (797.3 million actual versus 1,031.4 million planned). Document Services is producing more products and services that do not record units. Actual in-house costs were higher than planned ($131.5 million actual versus $121.4 million planned). The higher in-house cost is driven primarily by the Navy Shipboard Multipurpose Copier Program, which was budgeted as a commercial program but executed as an in-house program. DLA Document Services was not able to reach its goal due to declining sales outpacing reduced costs.

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of expenses over revenue of approximately $8.9 million, with a recoverable net operating result of $.9 million.

BLANK PAGE

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Program Costs		
Gross Costs	$ 279,682	$ 265,671
(Less: Earned Revenue)	(265,147)	(248,745)
Net Program Costs Including Assumption Changes	14,535	16,926
Net Cost of Operations	$ 14,535	$ 16,926

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2014 and 2013
(In Thousands)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 14,173	$ 26,216
Beginning balances, as adjusted	14,173	26,216
Budgetary Financing Sources:		
Nonexchange revenue	(3)	1
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	2,342	(24)
Imputed financing from costs absorbed by others	4,747	4,906
Total Financing Sources	7,086	4,883
Net Cost of Operations (+/-)	14,535	16,926
Net Change	$ (7,449)	$ (12,043)
Cumulative Results of Operations	6,724	14,173
Net Position	$ 6,724	$ 14,173

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years September 30, 2014 and 2013
(In Thousands)

	2014	2013
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 116,155	$ 116,430
Unobligated balance brought forward, October 1, as adjusted,	116,155	116,430
Recoveries of prior year unpaid obligations	37,407	25,890
Other changes in unobligated balance (+ or -)	-	(54)
Unobligated balance from prior year budget authority, net	153,562	142,266
Contract Authority (discretionary and mandatory)	-	1,207
Spending Authority from offsetting collections (discretionary and mandatory)	266,703	241,316
Total Budgetary Resources	$ 420,265	$ 384,788
Status of Budgetary Resources:		
Obligations Incurred	$ 297,523	$ 268,633
Unobligated balance, end of year		
Apportioned	122,742	116,155
Total unobligated balance, end of year	122,742	116,155
Total Budgetary Resources	$ 420,265	$ 384,788

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the years September 30, 2014 and 2013
(In Thousands)

	2014	2013
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 116,331	$ 125,117
Obligations incurred	297,523	268,633
Outlays (gross) (-)	(254,107)	(251,529)
Recoveries of prior year unpaid obligations (-)	(37,407)	(25,890)
Unpaid Obligations, end of year	122,340	116,331
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(70,824)	(79,402)
Change in uncollected pymts, Fed sources (+ or -)	(14,721)	8,579
Uncollected pymts, Fed sources, end of year (-)	(85,545)	(70,824)
Obligated balance, start of year (+ or -)	45,507	45,714
Obligated balance, end of year (+ or -)	$ 36,795	$ 45,507
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 266,704	$ 242,522
Actual offsetting collections (discretionary and mandatory) (-)	(252,126)	(251,553)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(14,721)	8,579
Budget Authority, net (discretionary and mandatory)	$ (143)	$ (452)
Outlays, gross (discretionary and mandatory)	254,107	251,529
Actual offsetting collections (discretionary and mandatory) (-)	(252,126)	(251,553)
Outlays, net (discretionary and mandatory)	1,981	(24)
Agency Outlays, net (discretionary and mandatory)	$ 1,981	$ (24)

BLANK PAGE

Defense Logistics Agency
General Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2014 and 2013

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,402,995	$ 1,266,083
Accounts Receivable (Note 5)	8,310	3,262
Total Intragovernmental Assets	1,411,305	1,269,345
Accounts Receivable, Net (Note 5)	81	18
General Property, Plant and Equipment, Net (Note 10)	917,246	795,149
Other Assets (Note 6)	216	118
TOTAL ASSETS	$ 2,328,848	$ 2,064,630
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 21,311	$ 23,806
Other Liabilities (Note 15 & 16)	3,311	4,834
Total Intragovernmental Liabilities	24,622	28,640
Accounts Payable (Note 12)	8,862	9,633
Military Retirement and Other Federal Employment Benefits (Note 17)	5,527	5,644
Environmental and Disposal Liabilities (Note 14)	291,309	291,497
Other Liabilities (Note 15 and Note 16)	3,837	3,661
TOTAL LIABILITIES	$ 334,157	$ 339,075
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 1,354,584	$ 1,214,960
Cumulative Results of Operations - Other Funds	640,107	510,595
TOTAL NET POSITION	1,994,691	1,725,555
TOTAL LIABILITIES AND NET POSITION	$ 2,328,848	$ 2,064,630

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Thousands)

		2014		2013
PROGRAM COSTS				
Gross Costs	$	614,873	$	812,288
(Less: Earned Revenue)		(51,203)		(50,716)
Net Program Costs Including Assumption Changes		563,670		761,572
NET COST OF OPERATIONS	$	563,670	$	761,572

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 510,595	$ 445,640
Prior Period Adjustments:		
Beginning balances, as adjusted	510,595	445,640
Budgetary Financing Sources:		
Appropriations used	887,341	885,950
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(202,488)	(62,722)
Imputed financing from costs absorbed by others	3,212	3,301
Other (+/-)	1	(2)
Total Financing Sources	693,182	826,527
Net Cost of Operations (+/-)	563,670	761,572
Net Change	129,512	64,955
Cumulative Results of Operations	$ 640,107	$ 510,595
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 1,214,960	$ 1,091,283
Beginning balances, as adjusted	1,214,960	1,091,283
Budgetary Financing Sources:		
Appropriations received	1,014,771	941,586
Appropriations transferred-in/out	19,573	90,466
Other adjustments (rescissions, etc)	(7,379)	(22,425)
Appropriations used	(887,341)	(885,950)
Total Budgetary Financing Sources	139,624	123,677
Unexpended Appropriations	1,354,584	1,214,960
Net Position	$ 1,994,691	$ 1,725,555

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and 2013
(In Thousands)

		2014		2013
Budgetary Resources:				
Unobligated balance brought forward, October 1	$	488,048	$	275,877
Unobligated balance brought forward, October 1, as adjusted, as Adjusted		488,048		275,877
Recoveries of prior year unpaid obligations		40,446		151,201
Other changes in unobligated balance (+ or -)		14,425		56,606
Unobligated balance from prior year budget authority, net		542,919		483,684
Appropriations (discretionary and mandatory)		1,017,654		953,019
Spending Authority from offsetting collections (discretionary and mandatory)		63,038		46,792
Total Budgetary Resources	$	1,623,611	$	1,483,495
Status of Budgetary Resources:				
Obligations Incurred	$	1,100,690	$	995,447
Unobligated balance, end of year				
Apportioned		473,121		458,469
Unapportioned		49,800		29,579
Total unobligated balance, end of year		522,921		488,048
Total Budgetary Resources	$	1,623,611	$	1,483,495

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 784,891	$ 884,453
Obligations incurred	1,100,690	995,447
Outlays (gross) (-)	(935,323)	(943,810)
Recoveries of prior year unpaid obligations (-)	(40,446)	(151,199)
Unpaid obligations, end of year	909,812	784,891
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(6,857)	(37,702)
Change in uncollected pymts, Fed sources (+ or -)	(22,881)	30,845
Uncollected pymts, Fed sources, end of year (-)	(29,738)	(6,857)
Obligated balance, start of year (+ or -)	778,034	846,751
3200 Obligated balance, end of year (+ or -)	$ 880,074	$ 778,034
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 1,080,692	$ 999,811
Actual offsetting collections (discretionary and mandatory) (-)	(40,157)	(77,637)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(22,881)	30,845
Budget Authority, net (discretionary and mandatory)	$ 1,017,654	$ 953,019
Outlays, gross (discretionary and mandatory)	935,323	943,810
Actual offsetting collections (discretionary and mandatory) (-)	(40,157)	(77,637)
Outlays, net (discretionary and mandatory)	895,166	866,173
Agency Outlays, net (discretionary and mandatory)	$ 895,166	$ 866,173

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
General Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2014 and 2013

Note 1. Significant Accounting Policies

A. Basis of Presentation

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

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

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

The DoD currently has 13 auditor identified material weaknesses. Of these, DLA has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) General Property, Plant, and Equipment; (5) Accounts Payable; (6) Intragovernmental Eliminations; and (7) Accounting Entries.

B. Mission of the Reporting Entity

The DLA's primary mission is to provide best value logistics integrated solutions to meet the needs of America's Armed Forces and other designated customers around the clock, around the world in time of peace, national emergency, and war. Support begins with joint planning for parts used in new weapons systems, extends through production and contract support, distribution and warehousing, and concludes with the disposal of materiel that is obsolete, worn out, or no longer needed.

The DLA provides supply support, technical/logistics services and quality support to all branches of the Military and other nonDoD customers. The DLA activity groups executing these funds include DLA Supply Chain, DLA Energy, and DLA Document Services. The Supply Chain is comprised of: Land and Maritime, DLA Aviation, DLA Troop Support, DLA Distribution, and DLA Disposition Services. The DLA also manages the DLA Strategic Materials fund that is not included in these financial statements as they are a separate reporting entity for financial statement purposes.

C. Appropriations and Funds

The DLA GF is appropriated by Congress, which grants authority to the Office of the Secretary of Defense (OSD) and its components to obligate funds and pay for goods and services from their annual budgets. After funds are appropriated, they are apportioned by the Office of Management and Budget (OMB) and then allotted by the OSD. DLA utilizes these funds to execute mission requirements for the Agency and the Department of Defense. Both detail and summary-level financial reports are available to provide the information necessary to make suitable management decisions pertaining to the allocation and appropriate use of the General Fund.

The Operation and Maintenance (O&M) appropriation finances Other Logistics Services and Programs and Environmental Programs. DLA O&M includes multiple programs associated with DLA logistics mission as well as Departmental and Congressionally added programs. The DLA is either the executive agent responsible for program oversight and policy guidance or the budget administrator responsible for administrative support for these programs.

The Family Housing appropriation finances the routine operations, maintenance, and construction improvements of 140 military family housing units. Routine operation and maintenance includes management costs, utility costs and cyclical maintenance such as painting and renovations.

The Research, Development, Test, and Evaluation (RDT&E) appropriation finances the development of major upgrades that increase the performance of existing systems, the purchase of test articles, and the developmental testing and/or initial operational test and evaluation prior to system acceptance.

The Procurement Defense-Wide appropriation finances mission essential equipment, including automated data processing, telecommunications equipment and passenger carrying vehicles that afford a high degree of efficiency, effectiveness, and productivity in the accomplishment of DLA's logistics mission.

The Military Construction (MILCON) appropriation finances the construction of facilities to support DLA's logistic support mission to include DoD fuel infrastructure projects (strategic refueling mission, environmental concerns, and fuel operations). The DLA sub-allocates MILCON authority to The US Army Corps of Engineers (USACE) and Naval Facilities Engineering Command (NAVFAC), which are DLA's primary design and construction agents for the MILCON program.

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

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

F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as accounts payable, environmental liabilities, and unbilled revenue. The DLA continues to implement process and system improvements to address these limitations.

G. Accounting for Intragovernmental Activities

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

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While DLA is unable to fully reconcile intragovernmental transactions with all federal agencies, DLA is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

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

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

H. Transactions with Foreign Governments and International Organizations

This is not applicable to the DLA GF.

I. Funds with the U.S. Treasury

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

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

J. Cash and Other Monetary Assets

This is not applicable to the DLA GF.

K. Accounts Receivable

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

L. Direct Loans and Loan Guarantees

This is not applicable to the DLA GF.

M. Inventories and Related Property

This is not applicable to the DLA GF.

N. Investments in U.S. Treasury Securities

This is not applicable to the DLA GF.

O. General Property, Plant and Equipment

The DLA's General Property, Plant and Equipment (PP&E) capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/ improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

P. Advances and Prepayments

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

Q. Leases

This is not applicable to the DLA GF.

R. Other Assets

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

S. Contingencies and Other Liabilities

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

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

Other liabilities also arise as a result of anticipated disposal costs for DLA's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset.

T. Accrued Leave

The DLA reports liabilities for accrued compensatory leave, annual leave, restored annual leave, restored BRAC leave, and credit hours for civilians. Sick leave and travel compensatory time are expensed as taken. The liabilities are based on current pay rates; however, GF accrued leave is unfunded. In addition, DLA benefits include Medicare and Social Security.

U. Net Position

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

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

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

V. Treaties for Use of Foreign Base

This is not applicable to the DLA GF.

W. Undistributed Disbursements and Collections

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

Supported disbursements and collections may be evidenced by the availability of corroborating documentation that would generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to DLA's Accounts Payable and Receivable trial balance prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivables are likely present in the DLA's financial statements.

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

X. Fiduciary Activities

This is not applicable to the DLA GF.

Y. Military Retirement and Other Federal Employment Benefits

The Department applies SFFAS No. 33, “Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates”, in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 17, Military Retirement and Other Federal Employment Benefits and Note 18, General Disclosures Related to the Statement of Net Cost, for additional information.

Z. Significant Events

This is not applicable to the DLA GF.

Note 2. Nonentity Assets

As of September 30	2014	2013
(Amounts in thousands)		
Total Nonentity Assets	$ 0	$ 0
Total Entity Assets	$ 2,328,848	$ 2,064,630
Total Assets	$ 2,328,848	$ 2,064,630

Total Nonentity Assets for DLA General Fund is Accounts Receivable for the Operation and Maintenance Appropriation pertaining to Other Reimbursement.

Note 3. Fund Balance with Treasury

As of September 30	2014	2013
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,402,995	$ 1,266,083
Total Fund Balances	$ 1,402,995	$ 1,266,083
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 0	$ 0
Fund Balance per DLA	1,402,995	1,266,083
Reconciling Amount	$ (1,402,995)	$ (1,266,083)

The DLA GF shows a $1,402,996,561.32 reconciling net difference with the United States (U.S.) Treasury. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include DLA, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the U.S. Treasury does not separately report an amount for DLA and, therefore, the entire DLA's Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount.

Status of Fund Balance with Treasury

As of September 30	2014	2013
(Amounts in thousands)		
Unobligated Balance		
Available	$ 473,121	$ 458,472
Unavailable	49,800	29,579
Obligated Balance not yet Disbursed	909,812	784,889
NonFBWT Budgetary Accounts	(29,738)	(6,857)
Total	$ 1,402,995	$ 1,266,083

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

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

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

Non-budgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. DLA does not have any Non-budgetary FBWT costs this reporting period.

Non-FBWT Budgetary Accounts reduces the Status of FBWT. The DLA's Non-FBWT Budgetary Accounts consists of unfilled customer orders without advance and reimbursements and other income earned.

Note 4. Investments and Related Interest

This is not applicable to the DLA GF.

Note 5. Accounts Receivable

As of September 30	2014		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 8,310	N/A	$ 8,310
Nonfederal Receivables (From the Public)	$ 81	$ 0	$ 81
Total Accounts Receivable	$ 8,391	$ 0	$ 8,391

As of September 30	2013		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 3,262	N/A	$ 3,262
Nonfederal Receivables (From the Public)	$ 18	$ 0	$ 18
Total Accounts Receivable	$ 3,280	$ 0	$ 3,280

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

Note 6. Other Assets

As of September 30	2014	2013
(Amounts in thousands)		
Intragovernmental Other Assets		
Total Intragovernmental Other Assets	$ 0	$ 0
Nonfederal Other Assets		
Advances and Prepayments	213	118
Other Assets (With the Public)	3	0
Total Nonfederal Other Assets	$ 216	$ 118
Total Other Assets	$ 216	$ 118

Contract Financing Payments

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

Note 7. Cash and Other Monetary Assets

This is not applicable to the DLA GF in FY 2014.

Note 8. Direct Loan and Loan Guarantees

This is not applicable to the DLA GF in FY 2014.

Note 9. Inventory and Related Property

This is not applicable to the DLA GF in FY 2014.

Note 10. General PP&E, Net

As of September 30	2014				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Software	N/A	N/A	56,373	N/A	56,373
Construction-in- Progress	N/A	N/A	860,873	N/A	860,873
Total General PP&E			$ 917,246	$ 0	$ 917,246

As of September 30	2013				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress	N/A	N/A	795,149	N/A	795,149
Total General PP&E			$ 795,149	$ 0	$ 795,149

Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

N/A = Not Applicable

The Software major asset class consists of Internal-Use Software Under Development that was transferred from the Business Transformation Agency at the end of FY 2011.

The DLA General Fund Construction-in-Progress (CIP) is funded by the Military Construction and Family Housing appropriations. The DLA transfers resources to the U.S. Army Corps of Engineers, Naval Facilities Engineering Command, and the Air Force to manage and execute construction projects. These agencies maintain CIP accounts for each construction project managed and are responsible for facilitating the transfer of completed assets to the applicable real property account.

The CIP account is used to accumulate the costs of real property assets under construction until the construction is completed and the assets are available for use. These costs include direct labor, direct material and overhead, as well as engineering and design costs. When the asset is available for use, the asset is transferred from the DLA GF CIP account to the appropriate Military Service's General PP&E account.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2014	2013
(Amounts in thousands)		
Intragovernmental Liabilities		
Accounts Payable	$ 0	$ 6
Other	3,035	4,664
Total Intragovernmental Liabilities	$ 3,035	$ 4,670
Nonfederal Liabilities		
Accounts Payable	$ 6,527	$ 6,443
Military Retirement and Other Federal Employment Benefits	5,527	5,644
Environmental and Disposal Liabilities	262,221	260,189
Other Liabilities	1,815	2,204
Total Nonfederal Liabilities	$ 276,090	$ 274,480
Total Liabilities Not Covered by Budgetary Resources	$ 279,125	$ 279,150
Total Liabilities Covered by Budgetary Resources	$ 55,032	$ 59,927
Total Liabilities	$ 334,157	$ 339,077

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided. The DLA General Fund current year liabilities not covered by budgetary resources are primarily comprised of environmental liabilities. These environmental liabilities are estimates related to future events and therefore are unfunded.

Composition of Other Lines

Intragovernmental Liabilities Other consists of Federal Employment Compensation Act Liability and Other Unfunded Employment Related Liability.

Environmental and Disposal Liabilities: Refer to Note 14, Environmental and Disposal Liabilities for additional details and disclosures.

Nonfederal Liabilities Other consists of unfunded annual leave owed to civilian employees.

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of FECA benefits for $5.5 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2014		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 21,311	$ N/A	$ 21,311
Nonfederal Payables (to the Public)	8,861	1	8,862
Total	$ 30,172	$ 1	$ 30,173

As of September 30	2013		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 23,808	$ N/A	$ 23,808
Nonfederal Payables (to the public)	9,632	1	9,633
Total	$ 33,440	$ 1	$ 33,441

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA systems do not track all intragovernmental transactions by customer at the transaction level. Therefore, buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

This is not applicable to the DLA General Fund.

Note 14. Environmental and Disposal Liabilities

As of September 30	2014	2013
(Amounts in thousands)		
Environmental Liabilities-- Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 249,257	$ 238,773
Environmental Corrective Action	422	1,469
Environmental Closure Requirements	0	695
Installation Restoration Program	41,630	50,560
Total Environmental Liabilities	$ 291,309	$ 291,497

The DLA Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the Defense Environmental Restoration Account (DERA) and BRAC funded environmental restoration programs and (2) anticipated future costs necessary to complete environmental restoration requirements at DLA's environmental sites. In FY 2014, DLA utilized Version 11.1 of the Remedial Action Cost Engineering & Requirements (RACER) software to generate the fiscal year (FY) 2015 Cost to Complete (CTC) estimates of anticipated future costs. Cost estimates were generated for 90 Defense Environmental Restoration Program (DERP) sites, one Non-BRAC Corrective Action site, and one BRAC site.

Applicable Laws and Regulations for Cleanup Requirements

The DLA is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. The DLA is required to comply with the following laws and regulations where applicable: The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA); the Superfund Amendments and Reauthorization Act (SARA); the Resource Conservation and Recovery Act (RCRA); and the Clean Water Act require DLA to clean up contamination caused by DLA in coordination with regulatory agencies. This cleanup may at times extend beyond Installation boundaries onto privately owned property and to sites where DLA is named as a potentially responsible party by a regulatory agency.

Types of Environmental Liabilities and Disposal Liabilities

The DLA is responsible for clean-up requirements for DERP sites at Active Installations, BRAC Installations, and sites at Active Installations that are not covered by DERP. All clean-up is conducted in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER software, an independently validated software application, to estimate future environmental costs. The RACER Steering Committee ensures that the software is Validated, Verified, and Accredited IAW Department of Defense (DoD) Instruction 5000.61.

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

Changes in site-level estimates from the previous CTC occurred in the FY 2015 CTC due to changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. In addition, changes to program management costs occurred due primarily to a decrease in projected Defense State Memorandum of Agreement (DSMOA) costs. Year-to-year fluctuations in DLA's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2015 CTC has incorporated the DoD inflation factors into the BRAC, DERP and Non-BRAC closure estimates. The latest version of RACER was used to prepare the estimates.

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

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

DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible. Due to the inherent uncertainty involved with environmental contamination and associated remedial actions, RACER, as a parametric cost estimating tool, is used as a preliminary of order of magnitude estimate. The stated total liability is an estimate of current and future liabilities.

During the development of the FY 2015 CTC estimates, the sites identified in the table below were identified as Potential ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. This table also lists ELs with no associated CTC estimate as all funding anticipated to be required for these sites was obligated in FY 2014 or earlier. These sites will be re-evaluated during the next CTC process to determine if any changes have taken place and sufficient information/data is available to create an estimate that would be included in the General Fund EL.

DLA Sites Not Included in the General Fund Total Environmental Liabilities:

Support Office	Site Name	Category	Comments
Battle Creek	Dickinson, Melbourne, Florida	Potential EL	Third party site, not yet determined if DLA will be a potentially responsible party (PRP).
Battle Creek	Pebble Beach, Inyokern, CA	Potential EL	Third party site, not yet determined if DLA will be a PRP.

Battle Creek	Banaire Enterprises, Cabazon, CA	Potential EL	Third party site, not yet determined if DLA will be a PRP.
Sharpe	Underground Storage Tank (UST) 12	EL	Funds have been obligated (in FY 2014) for closure sampling at each of these former tank areas. This investigation will determine whether residual contamination exists at any of these sites and whether remedial action will be required. Since the need for a remedial action cannot be determined at this time, no out-year costs were included in the FY 2015 CTC. The outcome of the investigation will determine future actions and the EL CTC estimates for these sites will be updated for FY 2016 if remedial action proves to be necessary.

Note 15. Other Liabilities

As of September 30	2014		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	125	526	651
Employer Contribution and Payroll Taxes Payable	276	0	276
Other Liabilities	2,384	0	2,384
Total Intragovernmental Other Liabilities	$ 2,785	$ 526	$ 3,311
Nonfederal			
Accrued Funded Payroll and Benefits	$ 589	$ 0	$ 589
Accrued Unfunded Annual Leave	1,815	0	1,815
Contract Holdbacks	1,336	0	1,336
Employer Contribution and Payroll Taxes Payable	97	0	97
Total Nonfederal Other Liabilities	$ 3,837	$ 0	$ 3,837
Total Other Liabilities	$ 6,622	$ 526	$ 7,148

As of September 30	2013		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	541	135	676
Employer Contribution and Payroll Taxes Payable	169	0	169
Other Liabilities	3,989	0	3,989
Total Intragovernmental Other Liabilities	$ 4,699	$ 135	$ 4,834
Nonfederal			
Accrued Funded Payroll and Benefits	$ 618	$ 0	$ 618
Accrued Unfunded Annual Leave	2,204	0	2,204
Contract Holdbacks	800	0	800
Employer Contribution and Payroll Taxes Payable	39	0	39
Total Nonfederal Other Liabilities	$ 3,661	$ 0	$ 3,661
Total Other Liabilities	$ 8,360	$ 135	$ 8,495

Note 16. Commitments and Contingencies

There are no disclosures required for DLA General Fund this reporting period.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2014		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 5,527	$ 0	$ 5,527
Total Other Benefits	$ 5,527	$ 0	$ 5,527
Total Military Retirement and Other Federal Employment Benefits:	$ 5,527	$ 0	$ 5,527

As of September 30	2013		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 5,644	$ 0	$ 5,644
Total Other Benefits	$ 5,644	$ 0	$ 5,644
Total Military Retirement and Other Federal Employment Benefits:	$ 5,644	$ 0	$ 5,644

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the Department of Labor’s Office of Workers' Compensation Programs and provided to DLA at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

Expense Components

The only expense component for 4th Quarter, FY 2014 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

The liability for future workers' compensation 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. Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting are as follows:

2.855% in Year 1
2.855% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2014 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2015	1.73%	2.93%
2016	2.17%	3.86%
2017	2.13%	3.86%
2018	2.23%	3.90%
2019	2.30%	3.90% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2014 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three years.

The cost model used for the estimated actuarial liability is updated only at the end of each fiscal year.

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

The DLA interacts with, and is dependent upon the financial activities of the Federal Government as a whole. The DLA's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) while the Military Retirement System (MRS) covers military personnel. Additionally, personnel covered by FERS and MRS also have varying coverage under Social Security. The DLA finances only a

portion of the civilian pensions. While reporting and funding civilian pensions under CSRS and FERS is the responsibility of Office of Personnel Management, DLA recognizes an imputed expense for the portion of civilian employee pension's benefit on the Statement of Net Cost. The DLA also recognizes corresponding imputed revenue from the civilian employee pension's benefit on the Statement of Changes in Net Position.

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

Intragovernmental Costs and Exchange Revenue				
As of September 30		2014		2013
(Amounts in thousands)				
Operations, Readiness & Support				
Gross Cost				
Intragovernmental Cost	$	322,756	$	396,655
Nonfederal Cost		111,350		140,170
Total Cost	$	434,106	$	536,825
Earned Revenue				
Intragovernmental Revenue	$	(37,844)	$	(26,081)
Nonfederal Revenue		(15)		2,028
Total Revenue	$	(37,859)	$	(24,053)
Total Net Cost	$	396,247	$	512,772
Procurement				
Gross Cost				
Intragovernmental Cost	$	811	$	0
Nonfederal Cost		12,472		8,562
Total Cost	$	13,283	$	8,562
Total Net Cost	$	13,283	$	8,562

Research, Development, Test & Evaluation				
Gross Cost				
Intragovernmental Cost	$	26,125	$	39,119
Nonfederal Cost		142,045		217,544
Total Cost	$	168,170	$	256,663
Earned Revenue				
Intragovernmental Revenue	$	(12,659)	$	(20,707)
Nonfederal Revenue		(685)		(385)
Total Revenue	$	(13,344)	$	(21,092)
Total Net Cost	$	154,826	$	235,571

Family Housing & Military Construction				
Gross Cost				
Intragovernmental Cost	$	12,309	$	9,099
Nonfederal Cost		(12,995)		1,139
Total Cost	$	(686)	$	10,238
Earned Revenue				
Nonfederal Revenue		0		(5,571)
Total Revenue	$	0	$	(5,571)
Total Net Cost	$	(686)	$	4,667

Consolidated				
Gross Cost				
Intragovernmental Cost	$	362,001	$	444,873
Nonfederal Cost		252,872		367,415
Total Cost	$	614,873	$	812,288
Earned Revenue				
Intragovernmental Revenue	$	(50,503)	$	(46,788)
Nonfederal Revenue		(700)		(3,928)
Total Revenue	$	(51,203)	$	(50,716)
Total Net Cost	$	563,670	$	761,572

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

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

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity. Public costs may also include actuarial gains/losses on pensions, other retirement benefits, and/or other postemployment benefits assumption changes.

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

Some of the amounts presented in this statement do not meet accounting standards and are based on budgetary obligations, disbursements and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2014.

The Department complies with SFAAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates". The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits on the SNC. The SFFAS No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

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

Appropriations Received on the SCNP does not agree with Appropriations on the Statement of Budgetary Resources.

Appropriations, Statement of Budgetary Resources	$	1,017,654,198
Appropriations Received, Statement of Changes in Net Position		1,014,771,466
Total Reconciling Amount	$	2,882,732
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	2,882,732
Total Reconciling Items	$	2,882,732

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2014	2013
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 890,195	$ 756,413

The DLA had Apportionment Category A-Direct and Reimbursable Obligations Incurred and Category B-Direct Obligations Incurred. Category A and Category B did not contain Obligations Exempt from Apportionment. The table below summarizes the apportionment categories.

($ millions)	**Category A**	**Category B**	**Totals**
Direct Obligations Incurred	584.7	82.7	667.4
Reimbursable Obligations Incurred	11.2	48.1	59.3
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	595.9	130.8	726.7

The Statement of Budgetary Resources includes intra-entity transactions because the statements are presented as combined.

Appropriations Received on the Statement of Budgetary Resources does not agree with Appropriations on the Statement of Changes in Net Position. See Note 19 for additional information.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30		2014		2013
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	1,100,690	$	995,447
Less: Spending authority from offsetting collections and recoveries (-)		(103,484)		(197,994)
Obligations net of offsetting collections and recoveries	$	997,206	$	797,453
Less: Offsetting receipts (-)		0		0
Net obligations	$	997,206	$	797,453
Other Resources:				
Donations and forfeitures of property		3		0
		(202,488)		(62,722)
Transfers in/out without reimbursement (+/-)				
Imputed financing from costs absorbed by others		3,212		3,301
Other (+/-)		1		(2)
Net other resources used to finance activities	$	(199,272)	$	(59,423)
Total resources used to finance activities	$	797,934	$	738,030
Resources Used to Finance Items not Part of the Net Cost of Operations:				

As of September 30		2014		2013
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
Undelivered Orders (-)	$	(133,782)	$	107,569
Unfilled Customer Orders		23,927		(4,927)
Resources that fund expenses recognized in prior Periods (-)		(252,003)		(1,618)
Other (+/-)		202,485		62,722
Total resources used to finance items not part of the Net Cost of Operations	$	(159,373)	$	163,746
Total resources used to finance the Net Cost of Operations	$	638,561	$	901,776
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Increase in environmental and disposal liability		0		64,047
Other (+/-)		249,756		287
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	249,756	$	64,334
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	0	$	0
Revaluation of assets or liabilities (+/-)		169		9,641
Other (+/-)				
Other		(324,816)		(214,179)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	(324,647)	$	(204,538)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	(74,891)	$	(140,204)
Net Cost of Operations	$	563,670	$	761,572

The Reconciliation of Net Cost of Operations to Budget provides information on the total resources used by DLA, both those received through the budget and those received by other means. It reconciles the budgetary obligations incurred to the net cost of operations for a given reporting period. It articulates and details the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting.

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

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

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

Composition of Other Lines

Resources Used to Finance Items not Part of the Net Cost of Operations: Other consists of Financing Sources Transferred out Without Reimbursements for military construction (MILCON) appropriation pertaining to Construction-in-Progress (CIP).

Components Requiring or Generating Resources in Future Period: Other consists of estimated future funded expenses for environmental liability.

Components Not Requiring or Generating Resource: Other consists primarily of cost capitalization offsets within the MILCON and RDT&E appropriations for CIP.

Note 22. Disclosures Related to Incidental Custodial Collections

This is not applicable to the DLA General Fund.

Note 23. Funds from Dedicated Collections

This is not applicable to the DLA General Fund.

Note 24. Fiduciary Activities

This is not applicable to the DLA General Fund.

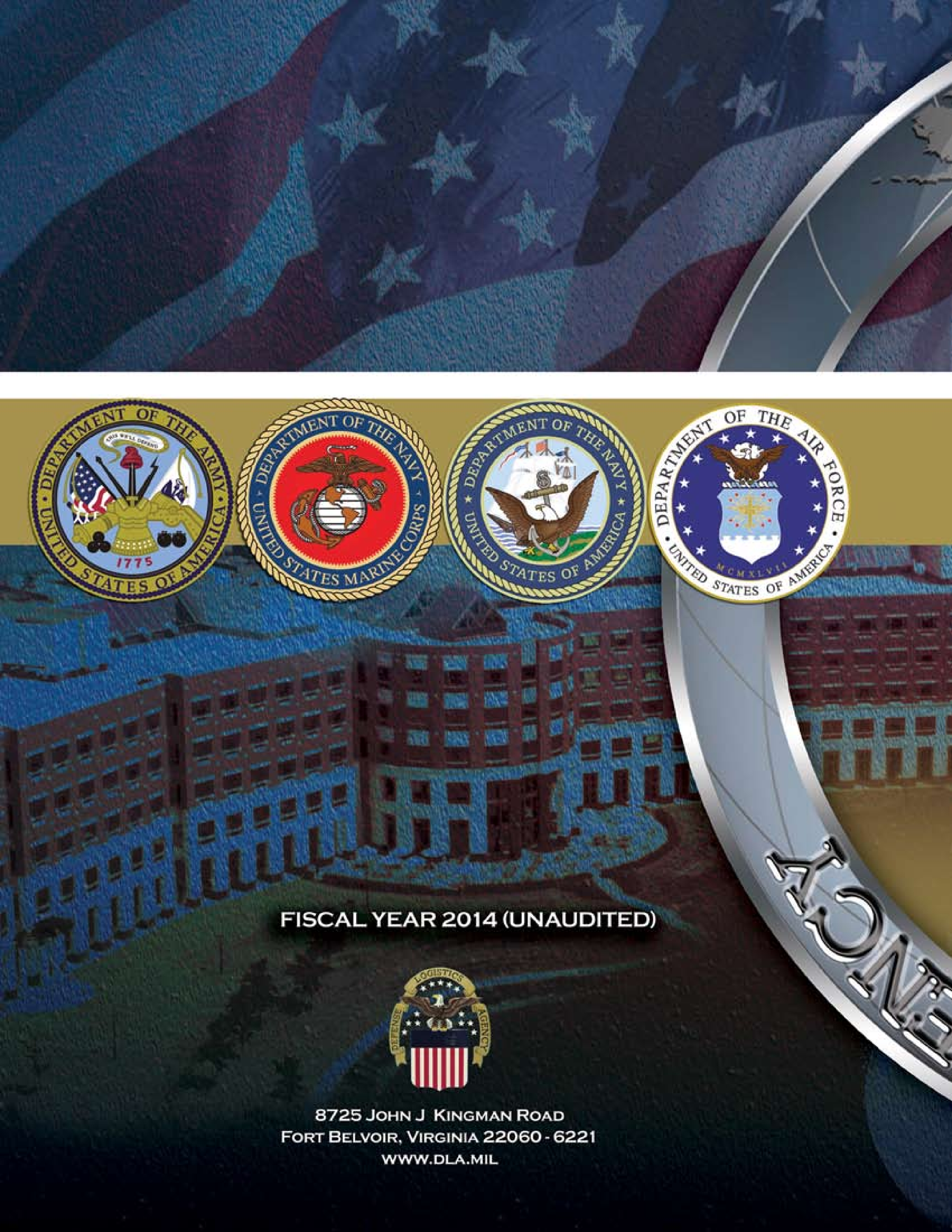
Note 25. Other Disclosures

This is not applicable to the DLA General Fund.

Note 26. Restatements

This is not applicable to the DLA General Fund.

BLANK PAGE


FISCAL YEAR 2014 (UNAUDITED)
8725 John J Kingman Road
Fort Belvoir, Virginia 22060 - 6221
www.dla.mil