THE WARFIGHTER'S LOGISTICS COMBAT SUPPORT AGENCY

DEFENSE LOGISTICS AGENCY ANNUAL FINANCIAL REPORT FISCAL YEAR 2010 (UNAUDITED)

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Defense Logistics Agency

Defense Working Capital Fund and General Fund

Fiscal Year (FY) 2010 Annual Financial Report

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MESSAGE FROM THE DIRECTOR
OCTOBER 2010

The Defense Logistics Agency (DLA) plays an increasingly critical role providing logistics support and collaborative global supply chain leadership for the Department of Defense (DoD). Given the ever-evolving economic and political environment, our customers, mission partners and all our stakeholders continue to expect more from DLA.

In that regard, we published our annual DLA Director's Guidance for Fiscal Year (FY) 2010 in early October 2009. It was informed by DoD's overall strategic goals, our own Strategic Plan for FYs 2010-2017 and our customers' and other stakeholders' expectations of DLA in FY 2010. Our three strategic focus areas were Warfighter Support Enhancement, Stewardship Excellence and Workforce Development, and we have sustained these focus areas in FY 2011. Twenty specific initiatives in the FY 2010 Director's Guidance supported progress for those elements we felt warranted special emphasis.

As always, our top priority in FY 2010 was to provide agile and responsive forward support in key operational areas such as Afghanistan and Iraq. We continued to enhance DLA's supply, storage and distribution performance at the Military Services' industrial sites and pursued a variety of initiatives to enable our superb civilian and military workforce to meet their current and anticipated challenges.

Stewardship of the resources entrusted to our care was also a top priority across DLA in FY 2010. As noted in last year's report, we still face obstacles that preclude an audit of our financial statements. Through multiple on-going actions, including several highlighted in our FY 2010 Director's Guidance, we made effective progress as tracked in our Financial Improvement and Audit Readiness plan and periodically briefed the DoD Comptroller. We also aggressively identified cost-reduction recommendations to the Secretary's Efficiencies Task Force and several functionally-oriented DoD Efficiencies teams for consideration in their on-going deliberations.

We are proud to meet our commitment to sustain our nation's Soldiers, Sailors, Airmen, and Marines as they carry out their current complex missions and prepare for those that may lie ahead. We are also committed to providing this sustained support as efficiently as possible, and thus will continue to improve our financial management posture. It is my privilege to lead the entire DLA team as we constantly strive to provide Warfighter-focused, globally responsive and fiscally responsible supply chain leadership.

A. S. THOMPSON
Vice Admiral, SC, USN
Director

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DEFENSE LOGISTICS AGENCY

Consolidated Management's Discussion and Analysis
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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 Under Secretary of Defense 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 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 5.3 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, and construction equipment and materiel. Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution, enabling the reutilization or disposal of surplus military assets, managing the defense national stockpile of strategic materiel, providing catalogs and other logistics information, and document automation and production services. DLA also manages the procurement of depot-level reparables. In addition, DLA supports U.S. allies and friends through Foreign Military Sales and is a vital player in providing humanitarian support at home or abroad.

Our FY 2010 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 supply chain leadership.

DLA's Values:

These values are DLA's four basic guiding principles. They guide us in all we do to achieve our mission, pursue our vision, and constantly do what is right for the Armed Forces and DoD – all day, every day, whatever we need to do, and wherever we need to do it:

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

BUILDING ON SUCCESS

As our mission has evolved and expanded over the years, DLA transformed to meet changing responsibilities and use best supply chain practices--while ensuring excellence in day-to-day service to Warfighters and those who support them. In this context, DLA identified five primary challenges that we addressed in the majority of our Calendar Year 2009 and FY 2010 initiatives:

- Sustain current operations in various operational theaters, including the increasingly demanding theater of operations in Afghanistan.
- Reassess major initiatives and budget priorities, especially across the financial planning horizon.
- Continue to improve business process outcomes for customers and taxpayers.
- Enable further improvements in information sharing, integration and assurance in supporting basic business operations and to promote a common logistics operating picture.
- Enhance DLA's ability to more quickly respond to unexpected challenges.

We made significant progress on each of these challenges in FY 2010. Examples include:

- Enacted effective responses to sustain on-going support in Southwest Asia (SWA) and met numerous requirements related to the force build up in Afghanistan and reset from Iraq. This included intensive management of parts support for Mine Resistant Ambush Protected (MRAP) and MRAP All Terrain Vehicles (M-ATV), along with energy support and various key troop support elements such as subsistence, clothing, construction and barrier materiel and medical supplies. To better support forces forward, we recently deployed an initial expeditionary distribution center capability to Afghanistan that will be followed by an expanded distribution capacity. DLA Disposition Services also has sites at numerous locations in SWA. All these efforts are enabled by the dedicated service of DLA contingency support teams and customer representatives forward with deployed forces.

- Partnered with U.S. Southern Command (USSOCOM), U.S. Transportation Command (USTRANSCOM) and other organizations to provide post-earthquake humanitarian assistance in Haiti via Operation Unified Response. DLA provided food, water, medical supplies and construction equipment to the relief effort. We also deployed a support team to Joint Task Force Haiti with the Agency's field activities working around the clock to meet customers' needs.
- Assumed a leadership role in support of U.S. Central Command (USCENTCOM) emphasis on local purchases in Iraq, Afghanistan and the South Caucasus and Central and South Asian States (SC/CASA) to enhance theater security effectiveness. DLA is an integral part of efforts to leverage the Northern Distribution Network (NDN) as an alternative means of delivering logistics support to Afghanistan. In addition, we have worked closely with everyone involved to sustain refueling capabilities at the Manas Transit Center in Kyrgyzstan and met other emergent logistics challenges.
- Responded to directions from the Secretary of Defense to identify potential contributions for reviewing business operations to seek efficiencies that will enable resource reallocation in support of force structure and modernization. In the interim, we sustained a reduced cost recovery rate resulting in a less-than-planned cost recovery factor in DLA goods and services.
- Expanded outreach communications to our DoD customers' and partners' senior leaders to provide more frequent updates on DLA's support and sought inputs that enabled us to increase our focus on their most current priorities. In addition, DLA's Fusion Center provides employees and our customers an up-to-date view of the Agency's performance and enables a drill-down review of factors of the most interest to individual viewers. We also revised the naming conventions for DLA's activities to give our customers and all stakeholders, including our own employees, a more definitive description of DLA's integrated enterprise-wide capabilities and approach to supply support.
- Partnered with the Military Services to continue progress in integrating retail supply capabilities and related workforces at collocated industrial sites.
- Established an intelligence analysis capability to augment our awareness of the myriad of sensitive international factors impacting current and potential support requirements. We also stood up a Risk Management focus team and related processes, such as an intensive Operational Evaluation Team assessment of contracting support issues.
- Continued extensive efforts regarding alternative energy sources by supporting service alternative fuel testing and certification efforts with targeted acquisitions of hydrotreated renewable fuels; to date, have procured over 600,000 gallons.
- Stood up the Joint Contingency Acquisition Support Office (JCASO) to support joint operations.
- Developed a comprehensive Human Capital Strategic Plan to enhance DLA's workforce management practices and related outcomes.
- Co-developed the Joint Staff J4's Joint Supply-Joint Integrating Concept that became the basis for an approved Joint Chiefs of Staff Joint Logistics White Paper and subsequent Joint Concept for Logistics.

Numerous challenges remain that have impacted both our FY 2010-2017 Strategic Plan update and the Director's Guidance initiatives for FY 2011. Foremost, among them are the continued support of expanded Warfighter needs forward in Afghanistan, while we help enable materiel reutilization and reset processes in Iraq and Kuwait, and preparing to sustain global Warfighter logistics support under increasingly constrained resourcing.

STRATEGIC FOCUS AREAS

We identified three principal strategic focus areas in both our Director's Guidance for FY 2010 and our Strategic Plan for FY 2010-2017. They continue to define our principal thrusts and are sustained in this guidance. They are:

- ***Warfighter Support Enhancement*:** Deliver agile and responsive logistics solutions to the warfighter.
- ***Stewardship Excellence*:** Manage DLA processes and resources to deliver effective warfighter support at optimal cost.
- ***Workforce Development*:** Foster a diverse workforce and supporting culture to deliver sustained mission excellence.

These strategic focus areas and their 13 related strategies are described in our Strategic Plan. In the balance of this guidance, we identify the 20 on-going and new initiatives that DLA will emphasize to progress in these three focus areas in FY 2010. While many of the initiatives impact more than one focus area, we array them by the area they most predominantly support.

DLA's FY 2010 SUPPORTING INITIATIVES AND DESIRED OUTCOMES

These initiatives collectively impact the entire Agency and require support across, and often beyond, DLA. We will pursue these 20 initiatives in parallel with ongoing strong support of our customers' operational needs and continued progress on other key projects.

Warfighter Support Enhancement (WSE)

DLA's top priority is always warfighter support. This means logistics support of the readiness and sustainment of America's warfighters themselves and of industrial activities and others whose own efforts are critical to preserving and enhancing our nation's and our allies' defense postures. Constant attention is required to ensure DLA's goals, processes, and performances are synchronized with the needs of our warfighting customers, mission partners and other stakeholders.

Desired outcomes include:

- Strong support of expected and emergent warfighter requirements.
- Continuous improvement in our expanded industrial support role.
- Refined capabilities and related performance metrics that define DLA's commitments in supporting the current logistics needs and future challenges of the Combatant Commands (COCOMs) and Military Services.
- A continually enhanced mission partnership with USTRANSCOM in its role as DoD's Distribution Process Owner (DPO), to better support end-to-end supply-chain management effectiveness and efficiency for DoD.

Supporting Initiatives:

(WSE-1). Ensure DLA resources and capabilities support expanded operations in Afghanistan.

Complete the ongoing analysis of DLA resources needed to support Operation Enduring Freedom (OEF), to include deployed DLA Support Teams' staffing. Develop a FY 2010 plan for support of USCENTCOM OEF. The plan will detail integrated support efforts for all eight DLA supply chains and our distribution, reutilization and disposal capabilities, as well as related engagement strategies initiatives, e.g., Northern Distribution Network and Contingency Acquisition Support.

(WSE-2). Build on existing efforts to ensure DLA supports a responsible drawdown effort in the Iraqi theater and related Service resets.

DLA will focus on clarifying materiel disposition and reset support requirements, codifying roles and responsibilities for Agency organizations, and coordinating a DLA drawdown/reset Common Operating Picture (COP) to support execution. We will establish a structured plan for DLA activities needed to support responsible drawdown and reset, to include:

- Impact of materiel retrograde and reset on demand and supply planning.
- Depot capacity and workload requirements to support retrograde materiel.
- Disposal and reutilization requirements in Iraq, Kuwait and the Continental U.S. (CONUS).

(WSE-3). Improve integration and performance in BRAC mission areas.

Implement policy, procedural, systemic and organizational capabilities to deliver optimized support to customers in mission areas realigned to DLA by the BRAC 2005 recommendations (e.g., supply, storage and distribution support of industrial sites, and procurement of Services' depot-level reparables).

(WSE-4). Lead departmental efforts to execute alternative fuel/renewable energy (AFRE) solutions for the warfighter.

Lead DoD's efforts to bring AFRE solutions to the warfighter in the following five specific areas:

- Leverage research and development (R&D) contracting to develop and deliver hydrotreated renewable jet fuels from biomass oil sources in required quantities sufficient to support Air Force and Navy aircraft certification testing.
- Leverage R&D contracting to develop and deliver algae oil-derived F-76 marine fuel in required quantities sufficient to support Navy engine testing/certification.
- Conduct R&D studies to advance state of knowledge on intricacies of AFRE development and potential for operational usage.
- Leverage renewable energy acquisition expertise to support DoD and Federal civilian installation photovoltaic and energy savings requirements.
- Actively participate in senior DoD AFRE working groups to assist in development and harmonization of AFRE policies.

(WSE-5). Design and develop a DLA retail strategy to optimize related supply chain performance factors.

Partner with Service customers to implement logistics capabilities that optimize retail elements of end-to-end supply-chain performance through efficiencies in inventory planning, investment, positioning and delivery.

(WSE-6). Build the Joint Contingency Acquisition Support Office (JCASO) to full operational capability and begin operations.

JCASO is the organization designed to provide a program management approach to contingency acquisition requirements as mandated bisection 854 of the FY 2007 National Defense Authorization Act (NDAA). DLA built JCASO to full operational capability and commenced operations in FY 2010:

- We will develop and maintain a trained, technically competent, cadre of acquisition experts who remain operationally focused and are able to augment a COCOM upon request.
- The JCASO team will work closely with the COCOMs to ensure contract resources are included in operation plans (OPLANS) and contingency plans (CONPLANS), participate in COCOM exercises and training events to advance acquisition-management expertise and provide an expeditionary contingency contract management capability to COCOMs when requested.

- JCASO will provide visibility and a single point of contact for issues supporting the Joint Force Commanders (JFC) that involve contracts and contractor personnel.

- The deployed JCASO will provide COCOMs with Program Management Assistance for contingency contracting and contractor personnel issues.

(WSE-7). Design the future DDC distribution and reverse logistics capability by evaluating results of a Broad Agency Announcement (BAA) and executing accordingly.

DLA is seeking new methodologies, tools and philosophies to help optimize the distribution enterprise through the design and development of new processes to meet mission requirements. We also intend to evaluate new products or services (or improve those already in use) to meet expected performance objectives. Tenets of an optimized approach sought through this BAA and follow-on actions include:

- Distribution via one overall process encompassing all classes of supply with materiel strategically positioned within the distribution/disposal network to meet customer expectations at the lowest cost.
- Leveraging of commercial best practices.
- Integration of reverse logistics into our stock positioning strategy.
- An agile architecture that can incorporate potential near- and long-term additions to the distribution network and enable further integration of supply, distribution and transportation Information technology (IT) systems to provide enhanced end-to-end asset visibility.

(WSE-8). Actively engage with the Services' Program Managers and Program Executive Officers to determine how to provide strategic support throughout logistics life-cycle management.

In collaboration with Military Service senior logistics staffs, DLA will directly engage with the Military Services' Program Managers (PMs) and Program Executive Officers (PEOs) to determine how DLA can provide strategic support throughout the logistics life-cycle (LLC) management process. Engagement will take place before or during the Materiel Solution Analysis Phase of the LLC process. DLA will then develop a value proposal outlining the types and scope of support that can be provided, and formalize that support in Performance Based Agreements (PBAs) with the PMs/PEOs.

(WSE-9). Revise performance metrics with key stakeholders to further align Agency performance with mission priorities.

We are revising DLA's overall performance metrics to better align our metrics/goals with those of our customers. We will share these metrics with our customers in DLA's fusion center and at periodic performance-review sessions to provide a common operating picture of DLA's performance in support of our stakeholders. DLA will collaborate with our stakeholders to update PBAs with these new performance metrics.

(WSE-10). Enhance DLA's partnership with Engineering Support Activities.

DLA will continue efforts in partnership with the Military Services and the Office of the Secretary of Defense (OSD) to enhance all aspects of the engineering support process that impact DLA's ability to provide effective support of procurements of depot-level reparables and complex consumable items. This effort will also aid in resolving issues related to item obsolescence.

Stewardship Excellence (SE)

DLA's responsibilities have continued to grow in recent years as Base Realignment and Closure (BRAC) 2005 and other factors have driven us increasingly forward with the warfighters and industrial sites. DLA has also been deeply involved in new or expanding partnerships with various commands and agencies. It is in this context that we will continue to assess current and potential roles and related processes to ensure that we deliver maximum payoff from taxpayer resources while effectively supporting the warfighter. And at a time when it is critical to maximize sharing and integration of key information and other assets, we must also prevent their compromise.

Desired outcomes include:

- Continued identification of improvements in key processes and/or the enabling IT systems.
- Greater agility in monitoring operational and fiscal performance and responding to challenges, trends and other events.
- Active identification and implementation of additional efficiencies and risk-mitigation practices.

Supporting Initiatives:

(SE-1). Assess and resolve remaining Nuclear Weapons-Related Materiel (NWRM) vulnerabilities.

DLA will continue to aggressively pursue those efforts needed to ensure DLA and its mission partners complete comprehensive action plans to achieve positive inventory control of NWRM items.

(SE-2). Continue to achieve significant progress in delivering desired functionality for business processes as enabled by EBS enhancements.

To deliver key functionality improvements, we will achieve significant milestones on several approved EBS follow-on programs, including:

- A replacement procurement program that will include improved capabilities to procure depot level reparables (EProcurement).
- An integrated capability for DLA Energy (Energy Convergence).
- A modernized system to support DRMS' reutilization, transfer and disposal processes (Reutilization Business Integration).
- Other selected EBS system enhancements that enable support of our BRAC-related responsibilities at industrial sites.

(SE-3). Institute a "futures group" assessment capability. This group will conduct timely analyses of the expected warfighter readiness and sustainment-related environment and develop potential options to ensure the Agency can provide optimal combat logistics support.

DLA already has an expanded forward/retail logistics role, and DoD is assessing various options that will impact future warfighting and peacekeeping support requirements. It is essential that DLA have an agile and responsive analytical team that can advise senior leadership on related transformational issues and potential responses by DLA. This will position us to be as responsive as possible to the emerging needs of warfighters and other key stakeholders.

(SE-4). Identify and program cost reduction opportunities into Program Budget Review (PBR) 12.

With the expectation that DoD resources will become increasingly constrained over the next several years, it is important that we rationalize Agency initiatives and associated resources and ensure we maintain effective warfighter support. We need to identify and execute opportunities to reduce our core costs and the related financial impact on our customers. Candidates for review include physical plant, information technology support, materiel costs and labor.

(SE-5). Use a portfolio of processes and tools to streamline inventories while improving warfighter support in a constrained fiscal environment.

We will employ collaborative demand and supply planning enhancements, Inventory Policy Optimization, the Sales and Operations Planning (S&OP) process, and associated refined or new capabilities to continue to meet key performance objectives within available resources.

(SE-6). Pilot additional means to ensure productive benefits from Web 2.0 processes and Technology.

DLA is constantly striving to make effective use of emerging web technology and related practices while assuring we do not compromise our cyber security posture. We have made related progress by enhancing our internal and external-facing web sites. In FY 2010 we will pursue further efforts, such as an internal version of a social networking capability, as part of a complete re-design of DLA's eWorkplace knowledge management and collaboration tool. With due consideration of evolving DoD guidance in this area, we will also explore the potential benefits of other Web 2.0 concepts to enhance informal communications with those within and external to DLA.

Workforce Development (WD)

DLA's workforce remains vital to our current and long term success in effectively supporting the warfighter at optimal cost. We must enable our workforce to capitalize on their skills, experience and potential, and prepare to manage the transition as retirements increase in the years ahead. We must leverage the diverse backgrounds and abilities of our people—both civilians and the active duty and reserve military. We will also reassess our forward footprint of DLA personnel to most effectively utilize our workforce to support forward industrial and operational sites.

Desired outcomes include:

- Effective post-culture survey follow-on actions to enhance employees' opportunities to support DLA's mission.
- Identification of skill gaps and related education, training and experience opportunities.
- Refinement of DLA's overall recruitment and training programs as appropriate to capitalize on the diverse backgrounds, skills and potential of DLA's workforce.

Supporting Initiatives:

(WD-1). Support diversity and its related benefits through collaborative efforts focused on recruitment, development and retention.

DLA must take advantage of the various perspectives that a diverse workforce brings to development, execution and sustainment of logistics excellence. We will increase the participation rates of targeted groups in general, and in top positions in particular, through enterprise-wide collaborative efforts focused on recruitment, development and retention.

(WD-2). Use our recent culture survey results to prioritize, design and develop ways to enhance DLA's work environment.

The results of the 2009 DLA survey revealed opportunities to further improve DLA's culture and its impact on the workforce's ability to perform at their full potential. We will prioritize related improvement opportunities and design and implement initiatives that enhance our workforce's opportunities to maximize their contributions to mission success.

(WD-3). Analyze and provide recommendations on the appropriate DLA Forward personnel footprint at CONUS and OCONUS locations.

With the expansion of DLA's personnel into forward positions to support the needs of BRAC and Areas of Responsibility (AORs), we will analyze and provide recommendations on the appropriate DLA footprint in CONUS and outside continental United States (OCONUS) locations. This includes a process to identify the positions and competencies needed at remote locations and expand the number of personnel with the related expertise and supporting tools to effectively and efficiently meet mission needs.

(WD-4). Continue progress on the Talent Management Program through emphasis on workforce planning, strategic recruitment and training and further development of subject matter experts.

The DLA Talent Management Program supports an enterprise-wide strategy to ensure our workforce has the right skills to meet our current and future mission requirements. We will continue to concentrate on three focus areas:

- Workforce planning through a systematic, integrated, competency-based process.
- Strategic recruitments through implementation of refreshed recruitment tools and approaches.
- Improved training and development by implementing strategies to address existing skill gaps, enhance readiness for future mission requirements and expand opportunities for individual growth.

STAYING THE COURSE

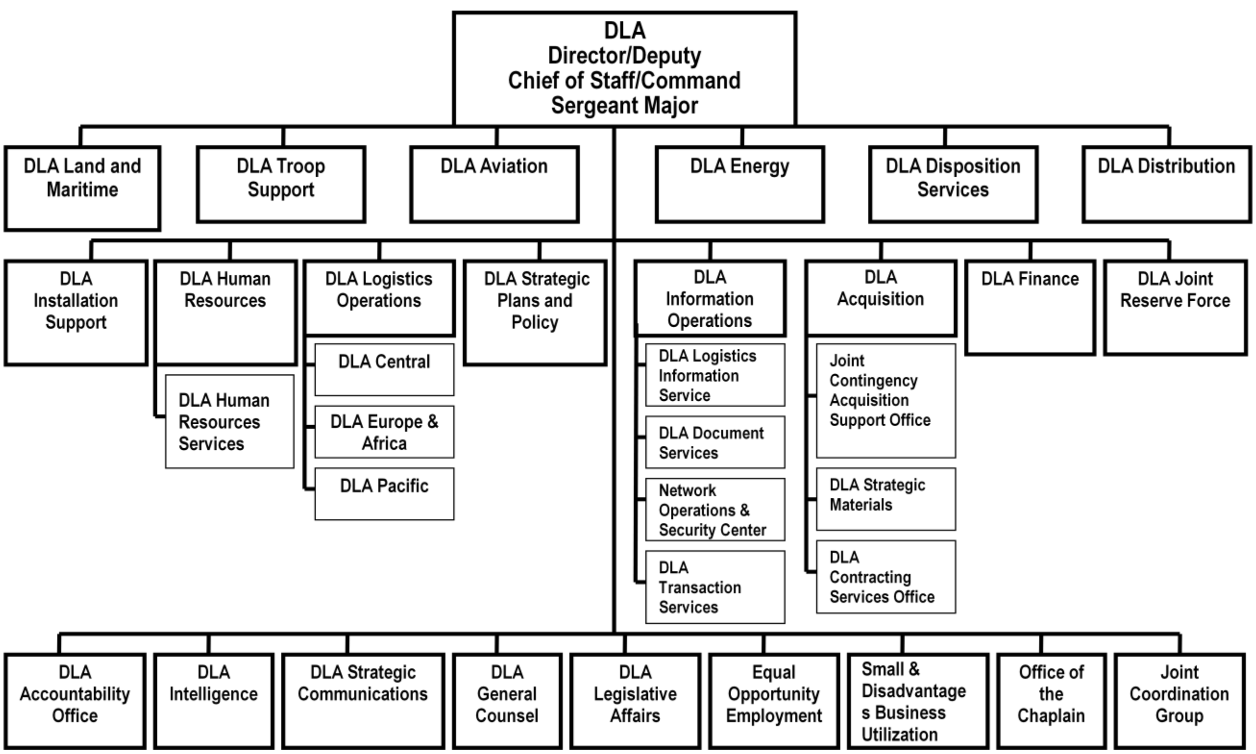
FY 2011 will clearly be another demanding year for DLA and all we serve. DLA must sustain our commitment of continuing to advance initiatives as reflected in the FY 2011 Director's Guidance to help meet desired outcomes in our three strategic focus areas.

The DLA Executive Board, representing the Agency's most senior leadership, meets monthly to oversee our business performance, assess other critical issues and guide implementation of the initiatives in the Director's Guidance for FY 2011. The Executive Board will monitor status and help remove any obstacles that might prevent effective progress on these initiatives. We will periodically post developments on DLA's public web site at www.dla.mil.

ORGANIZATION

DLA maintains a global presence and accomplishes its mission with approximately 25,353 civilian personnel, 561 active duty military personnel, and 759 reserve personnel. 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; Defense Travel System; 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 HQ DLA at Fort Belvoir, VA. 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 oversees the daily operation of the DLA logistics Field Activities and 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 BRAC implementation.

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 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 Risk Management (ERM), DLA Strategic Plans and Policy develops the strategy, concept of operations, and policy for agency-wide deployment of 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 two field activities: the DLA Logistics Information Service and DLA Document Service.

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 stature or regulation. DLA Acquisition includes oversight of the DLA Contracting Services Office Center of Excellence; the acquisition of major Information Technology (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 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 Working Capital Fund (DWCF). By design, the DWCF 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 DWCF 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 DWCF 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 year, DLA either obtains or returns funds to the DWCF and other DoD appropriations.

During FY 2010, DLA executed a total budget program of approximately $43.3 billion; finished the year with total assets valued at approximately $23.5 billion and liabilities of $4.0 billion from the Consolidated Balance Sheet; and incurred a net operating gain of almost $1.7 billion on program costs of approximately $42.0 billion and revenues of nearly $43.7 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. 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.

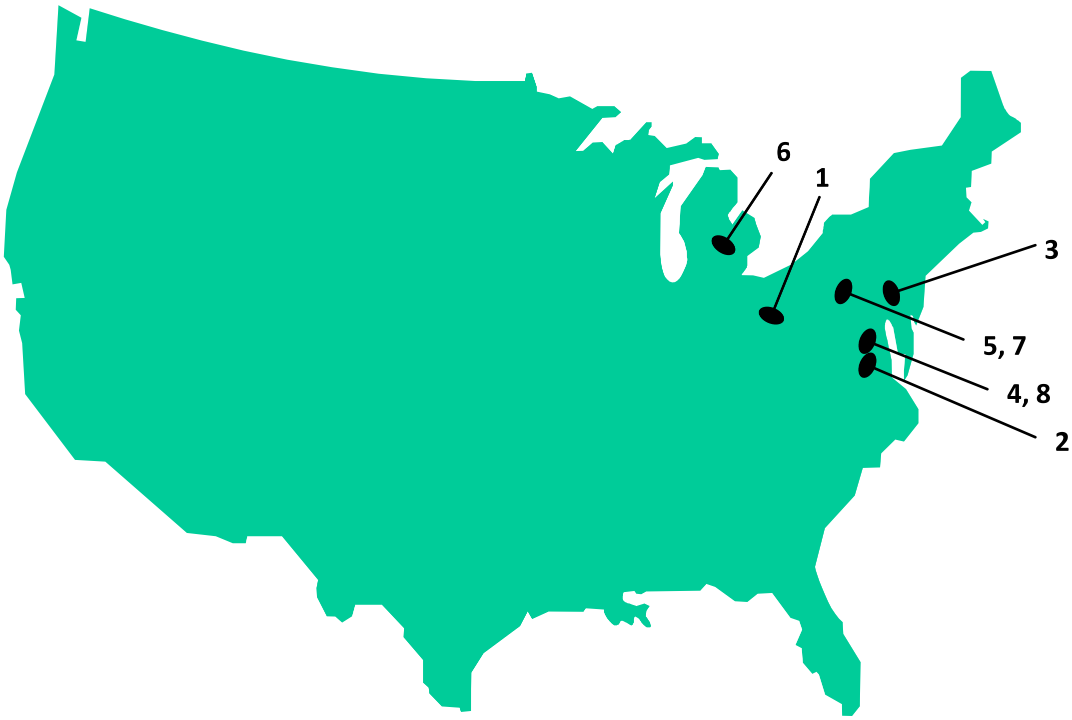
- Materiel Distribution (DLA Distribution): DLA Distribution provides a single, unified materiel distribution system for DoD. In addition to its primary mission of receiving, storing, and issuing materiel worldwide, distribution depots perform other functions that include - but are not limited to - providing refrigerated storage, cylinder refurbishment, tent repair, medical unit assemblies, kitting, and set assembly or disassembly. DLA Distribution is under the control of DLA Distributions in New Cumberland, PA, and includes 25 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 103 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 182 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, 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 2010 DLA received nearly $1 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, Test and Evaluation (RDT&E); Military Construction (MILCON); Procurement; Family Housing O&M; and two Base Realignment and Closure (BRAC) appropriations, BRAC 95 and BRAC 2005.

The DLA O&M appropriation, of approximately $368 million, funded two distinct groups: Other Logistics Services (OLS), $320 million, and Other Logistics Programs (OLP), $48 million. The OLS group included approximately thirty 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 seven program offices for which DLA either provided administrative support or had program oversight, such as the Defense Property Accountability System and the Continuity of Operations Program.

The DLA RDT&E appropriation, nearly $200 million, primarily supported two types of efforts: 1) Advanced Technology Development which includes DLA Logistics Research and Development Technology Demonstration program; Defense Microelectronics Activity program; and United States Transportation Command program and 2) Operational System Development which includes DLA Industrial Preparedness Manufactured Technology program, and Logistics Support Activity program.

The DLA MILCON appropriation, nearly $240 million, funded major construction projects to replace, renovate, or build new facilities. 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 $9 million, funded the purchase of mission essential equipment, including passenger carrying motor vehicles, telecommunications equipment, and automated data processing equipment.

The DLA Family Housing Construction appropriation, nearly $3 million, funded the replacement of six family housing dwelling units. Work includes demolition of existing structures and construction of new units on existing sites with full basements, new utilities, sidewalks, and landscaping.

The DLA Family Housing O&M appropriation, nearly $1 million, supported an inventory of 170 units located at the Distribution Depot Susquehanna, PA (140 units), and the Distribution Depot San Joaquin, CA (30 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 BRAC 95 appropriation began in FY 2010 as $2.6 million and was later increased to approximately $21 million due to the reissuance of prior year available funds into the FY 2010 account. The BRAC 95 appropriation provides for ongoing environmental cleanup and monitoring efforts at former DLA sites. The BRAC 2005 appropriation, approximately $105 million, funds several DLA-led initiatives mandated by the BRAC 2005 statute.

The DLA General Funds finished FY 2010 with total assets valued at approximately $1.4 billion and liabilities of approximately $248 million from the Consolidated Balance Sheet.

DLA also manages **DLA Strategic Materials**, a separate revolving fund with over $1.0 billion in total assets and $446 million in its Transaction Fund for FY 2010. DLA Strategic Materials strives to provide safe, secure, and environmentally sound stewardship for strategic and critical materiel in the National Defense 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 United States Code 3515(b).

While the statements were prepared from DLA's books and records in accordance with the formats prescribed by the Office of Management and Budget (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 in accordance with 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.

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.

DLA senior management evaluated the system of internal accounting and administrative controls in effect during FY 2010 as of the reporting period of July 1, 2009 through June 30, 2010. This evaluation was done in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control" (December 21, 2004); OMB Circular A-123 Appendix A, "Internal Control Over Financial Reporting," DoD Instruction 5010.40, "Managers' Internal Control Program Procedures" (July 29, 2010); and DoD Comptroller guidance, "FY 2009 Guidance for the Preparation of the Statement of Assurance (SOA)" (November 13, 2008). OMB guidelines were issued in conjunction with Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government" (November 1999), as required by the Federal Managers' Financial Integrity Act of 1982.

Based on its evaluation, DLA provided a qualified Statement of Assurance (SOA) that its system of internal controls, as of June 30, 2010, was operating effectively with the exception of 15 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 Enterprise Business System (EBS) from legacy systems.

- Effective June 30, 2010, the Defense Business Management System (DBMS) and Base Operations Support System (BOSS) data cleanse and conversion project moved valid Prior Year Unliquidated Obligations (ULOs) from these two legacy systems onto EBS. The project had three main objectives, 1) validating prior year existing ULOs, 2) converting valid ULOs to EBS and 3) closing-out DLA financial data on DBMS & BOSS legacy systems. Data cleansing in the legacy systems occurred until June at which time validated ULOs were converted to EBS. After conversion the payment office was redirected to EBS. All future invoices for these ULOs will now be paid out of EBS. DLA financials - that previously resided in legacy accounting systems – now reside in the DLA EBS.

- Basic functionality to capture Real Property (RP) and associated projects was deployed in August 2009, with conversion of RP items talking place in October 2009. This functionality included both the Flexible Real Estate (RE-FX) and Project Systems (PS) Modules of SAP and was put into place and into use in order to satisfy OSD reporting requirements of October 31, 2009.

RP data was migrated into EBS in October 2009 via three conversions in this order:

1. DPAS to Asset Accountability (AA) Module. Active RP records in DPAS were NOT included in the EOAS activity conversions of FY 2009. Once RP functionality was created, these assets were converted to the AA Module and FI Asset Records were created. At this point, the AA Module included RP Records for all off DLA.

2. FMS to RE-FX. All RP records housed in FMS were transferred to RE-FX (NESP, HQ and EOAS Activities). After the RE-FX Records were created, a matching program was initiated to match the newly created RE-FX Records to the FI Records in the AA Module. For those RE-FX Records that were not successfully matched, a "shell" FI Record was created. The corresponding FI Record number was annotated on the RE-FX Record.

3. SRM to PS Module. Project Records in SRM were scrubbed and transferred to the PS Module, where they were tied to records in the RE-FX Module. Deficiencies recorded in SRM were also transferred to the PS Module and recorded as Deficiencies. This conversion did NOT include DLA Energy.

For FY 2011, the functionality of the RE-FX and PS Modules will be enhanced. In addition, design, build and testing of the Plant Maintenance (PM) Module will be done. As of now, the intention is to have only DLA Energy use the PM Module; however the functionality is being built as though all of DLA will use it. The tentative deployment date is January 2012.

- DLA Energy continues to operate using BSM-Energy (also known as the Fuels Automated System (FAS)). The Energy Convergence program is working to convert DLA Energy from its legacy system to DLA EBS. As part of this program, DLA has been working with SAP to integrate the Oil & Gas industry solution with Federal Financial and Supplier Relationship Management by providing requirements for review. In addition, a systems integrator contract for Energy Convergence was awarded in the fourth Quarter of FY 2010. The program has already begun assessing all of DLA Energy's requirements for compliance with the Federal System and accounting requirements.

The Defense Finance and Accounting Service (DFAS) prepared the FY 2010 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 corrective actions underway that are intended to improve the underlying systems, business processes, and internal controls.

Management Controls

DLA is committed to fostering a climate supportive of internal controls. The information contained in the DLA FY 2010 SOA is a result of audits, inspection reports, and self-reporting of control deficiencies by its Assessable Units, along with accomplishments toward preventing control deficiencies. The SOA demonstrates progress in addressing difficult management issues while emphasizing a strategy of continuous improvement. DLA's rigorous internal control process methodology; Lean Six Sigma; and Enterprise Risk Management initiatives all play important roles in strengthening the Agency's understanding of its key business processes, as well as in the identification, validation, and testing of internal controls.

A pre-condition to assessing internal controls is for Agency Assessable Units to focus on their key mission, goals, and objectives. Assessable unit managers then review and analyze their organizational alignment, policies, processes, and procedures to discover risks that could prevent them from achieving their goals and objectives, and then identify the internal controls that are necessary to mitigate those risks. Once identified, managers test the internal controls to ensure that they are designed properly and are working as intended. The results of these evaluations support the Assessable Unit's SOA.

Under the oversight of DLA's Senior Assessment Team (SAT), which maintains complete records of the assessment documentation, DLA conducted assessments in strict compliance with OMB Circular A-123, Appendix A, "Internal Control Over Financial Reporting (ICOFR)." Based on the results of this evaluation, DLA was able to provide a qualified statement of assurance that DLA's ICOFR implementation areas, as of June 30, 2010, were operating effectively with the exception of the material weaknesses described in the SOA. When necessary, Corrective Action Plans (CAPs) are developed to document and fix material weaknesses. Progress in executing CAPs are reported to the SAT and the Stewardship Committee. In addition, CAPs are reported to the DoD Financial Improvement and Audit Readiness (FIAR) Directorate through its web-based FIAR tool.

The DLA Finance Agency Accounting Operations Office continued its efforts to improve the Agency's Defense Working Capital Fund financial reporting, so that the Enterprise can achieve the strategic goal of managing DLA's resources for the best customer value. As a result of these efforts, in FY 2010 a more structured process for coordinating, reviewing and adjusting Journal Vouchers (JV) was established over the course of a three-day Continuous Process Improvement (CPI) event. The primary expected benefits to be realized from this event include: 1) a more structured overall process, 2) a reduction in the volume of JV adjustments, 3) a reduction in the monthly workload by reducing/eliminating adjustments, and 4) increased integrity in the production of DLA's financial data.

To stay current with regard to the latest management control challenges, the Management Internal Control (MIC) Program Management Office, as well as the DLA field MIC Coordinators, routinely reviewed Government Accountability Office and DoD Audit Reports to: 1) identify weaknesses and the corresponding corrective actions for DLA-related functions and operations, 2) disseminate the information to the responsible DLA functional managers, and 3) facilitate a proactive approach that fosters management awareness and initiates the implementation of proper controls.

Progressing Toward Audit Readiness

In support of the business segmentation, DLA established a governance structure comprised of an Audit Committee, Stewardship Committee, Stewardship Working Group (SWG), Business Cycle Teams (BCTs), Stewardship Champions (high ranking field-level executives), and Field Stewardship Advocates (FSAs). The Stewardship Committee - chaired by the Deputy Director Logistics Operations and Readiness - is comprised of all Enterprise Business Cycle Owners (EBCOs) and the Stewardship Champions, while the SWG is comprised of all of the BCT Leads and Field Stewardship Advocates.

The ten business cycles that fall under the purview of this governance structure include: Procure to Pay, Order to Cash; Plan to Stock, Budget to Execution, Environmental Liabilities Management, Fund Balance With Treasury, Hire to Retire, Acquire to Retire, Technical Infrastructure and Architecture, and Record to Report. Each Enterprise Business Cycle Owner is a senior leader in DLA. Further, each BCT (led by a single responsible EBCO) is responsible for creating and implementing strategies that resolve reported audit findings; documenting the approaches to maintain and sustain audit readiness; and developing and executing a Detailed Work Plan (DWP) to resolve audit impediments in their areas of responsibility. As such, DWPs document DLA's approach to fix audit impediments; contain the actions required to document the processes and related internal controls; and identify the steps required to validate the outcome of the corrective actions and prepare the requisite management assertions. The DWPs also contain Financial Improvement Plans (FIPs) and Key Control Objectives (KCOs) to measure progress of each BCT. In addition, FIPs and KCOs are reported to the DoD Comptroller FIAR Directorate through its web-based tool and are included in the DoD FIAR Plan – the Department's comprehensive approach to achieve DoD-wide audit readiness. DLA updates the FIAR tool on a monthly basis. Finally, DLA, in support of the DoD Comptroller's focus areas for the Department to demonstrate movement towards audit readiness, utilized its existing DWPs to generate both the Statement of Budgetary Resources FIP and the FIPs reporting on status regarding the audit readiness of the completeness (and existence) of inventory, real property, and general property.

As DLA progresses towards audit readiness, the importance of systems - within the business processes - and the reliance on the controls in and around those systems become more and more apparent. DLA has a complex financial systems architecture comprised of systems owned by several separate and autonomous organizations (DLA, Business Transformation Agency, Defense Finance and Accounting Service, Civilian Personnel Management Service and other Components). Consequently, ensuring that adequate controls are embedded in and around these systems is a significant task, and because DLA-owned systems are undergoing revolutionary changes (legacy systems were replaced and its Enterprise Resource Planning system, Enterprise Business System, is being updated as needed to enable it to perform the required additional Functionality), control issues are even more difficult to manage. However, the DLA governance structure is working to ensure that management can assert that no material control weaknesses exist in its systems and that data extractions and system documentation are readily available to audit. The complexity of the DLA Financial Systems Architecture, the revolutionary nature of the on-going changes to the DLA enterprise resource planning system, and the identified automated control corrective action plans, resulting from OMB Circular A-123, Appendix A testing, are a few of the key challenges that DLA will need to overcome before its management can assert that the Agency is ready for audit.

At the end of the 4^{th} Quarter, FY 2010, DLA asserted audit readiness for Appropriations Received, as directed by the DoD Comptroller. Appropriations Received is the first of the five wave strategy identified by the FIAR Directorate and outlined in the May 15, 2010 FIAR Guidance. Beginning FY 2011, DLA will be working with the FIAR Directorate and the DoD Inspector General to validate that this portion of the Budget to Execute end-to-end business cycle is ready for audit.

Financial Improvement and Audit Readiness (FIAR) Initiative

In 2007, DLA led the Department to refine the FIAR Plan's audit strategy for validating and sustaining financial improvement and audit readiness across segments of the business environment, rather than individual financial statement line items. A segment is an essential part of the financial improvement that can be individually assessed, validated, and asserted on for audit readiness. The resulting comprehensive end-to-end business process framework contains six essential elements for financial management improvement and requires a review and evaluation of:

- **Policies** - to ensure that DLA policies, regulations, procedures, and other guidance are consistent with applicable Federal and DoD business and financial management laws, regulations, and policies;

- **Processes** (manual, automated, or both) - to ensure that business and financial processes produce accurate and timely financial information;

- **Controls** - to ensure that proper controls are in place to achieve:
    - Effectiveness and efficiency of operation,
    - Reliability of financial reporting, and
    - Compliance with applicable laws and regulations;

- **Systems** - to identify the systems utilized within a given business cycle and ensure that system capabilities and functionalities reliably produce the financial information or data needed to manage the business and record financial transactions in a timely manner, and confirm that system documentation is up-to-date, properly maintained, and readily available for auditors;

- **Data** – to ensure data integrity by reviewing the controls surrounding the input of data into an information system and controls over the exchange of data between systems that help ensure updates are performed timely, accurately and completely. This includes standard reporting requirements and identification of supporting evidential matter to include data extraction from information systems; and,

- **Human Capital** - to ensure that DLA has the right number of people with the right skills, knowledge, and experience to accomplish financial management improvement goals.

During the Discovery and Correction phases, DLA reviews and evaluates every business process step and develops corrective actions for each of the five essential elements of financial management improvement. Corrective actions for each element are captured as milestones in the FIPs and KCO plans. Corrective actions and progress are tracked across DLA from an end-to-end business process level, the business process step level, or the element level. This approach addresses improvement across the business (systems and processes) to produce both business and financial improvements.

DLA uses the services of a commercial firm to assist with the implementation of corrective actions and the preparation of process documentation required by both the DoD Comptroller's Business Rules and OMB Circular A-123. DLA's plan to achieve auditable financial statements is continually updated as progress is made toward these goals.

OTHER ACCOMPANYING INFORMATION

Restructured Annual Financial Report: Effective 1st Quarter, FY 2010, the Supply Management, Distribution, and Reutilization & Marketing Activity Groups were consolidated into a single Supply Chain Management (SCM) Activity Group. Further, in 4th Quarter, FY 2010, the DLA Director officially launched the new "We are DLA" Uniform Naming Convention for all DLA field activities and core functional organizations to reinforce an integrated "Single Agency" message, both internally and externally. Consequently, the FY 2010 Annual Financial Report now reflects the Working Capital Fund financial statements of the SCM and the DLA Document Services Activity Groups, as well as the "We Are DLA" Uniform Naming Convention.

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).

DLA has also been designated per Department of Defense Instruction (DODI) 4140.63, Management of DoD Clothing and Textiles (C&T), as the integration agent for DoD C&T (Class II). Specifically, *"The procurement, management, and supply of clothing and textiles materiel shall be coordinated and performed on a DoD-wide basis by the Director, DLA in accordance with 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 Clothing and Textiles integration roles and responsibilities:

DLA Troop Support:

- Conducted a Rehearsal of Concept drill with U.S. Africa Command (USAFRICOM) to analyze multi-supply class end-to-end supply chain support for a humanitarian assistance/disaster relief scenario in the USAFRICOM area of responsibility (AOR). Identified gaps and seams in the process and assigned remediation action to applicable components.

- Conducted a Mission Analysis and reviewed the Concept of Support for the Afghanistan build-up that began in December 2009. Specifically, developed a logistics supportability analysis for potential requirements and began to push critical Class I and IV materiel into Afghanistan to support the increased troop population. DLA leaned forward and pushed over $25M in Class IV material to the theater prior to troop movement to facilitate base camps and to relieve congested lines of communication (LOCs).

- In coordination with the U.S. Transportation Command (USTRANSCOM), conducted a proof of principle concept of support to assess alternative means of shipping materiel into

Afghanistan using the Northern Distribution Network (NDN) to alleviate stress on the Pakistan Ground Lines of Communication (GLOC). This resulted in increased transportation of Class I and IV materiel through the NDN allowing the Pakistan GLOC to focus on unit moves during the buildup of forces.

Class I (Subsistence):

- Continued to engage the Combatant Commands to optimize sustainment and planning.
- Participated in planning efforts and proactively supported the Iraq drawdown, the Subsistence Prime Vendor change over in Kuwait and Iraq, as well as the increase of forces in Afghanistan.
- Provided support to the US Army's CL I War Reserve program review, coordinated the drafting of a DLA-Army G-4 Performance Based Agreement on War Reserve and participated in the Army G-4's War Reserve Summit.
- Continued to support the Warfighter at forward locations through deployments to Iraq, Afghanistan, Kuwait and Haiti.
- Successfully implemented an automated Global Operational Rations Report which provides analysts and customers visibility of key rations stored by DLA around the world.
- Fielded a CL I supply planning tool that allows users to calculate rations and transportation requirements through the input of tailored conditions and headcounts.
- Continued to participate in the joint planning process. Reviewed Combatant Command Operations Plans and Contingency Plans and drafted logistics sustainability analyses documents.
- Participated in developing a Common Food Management System (CFMS) which is a joint initiative between DLA, the Military Services and the Military Sealift Command (MSC) to replace the Military Services and MSC's individual food management systems with a more efficient and effective single, cross-Service system.
- Provided critical command and control support during the humanitarian assistance and disaster response operation following the earthquake in Haiti.
- Continued to work on identified supply chain gaps and seams. Of the 21 previously identified gaps and seams, 18 have been closed.

- Participated in the Federal Emergency Management Agency's (FEMA) Hurricane scenario exercises to ensure DLA's readiness for the 2010 hurricane season.

- Worked with U.S. Department of State, the Government of the Islamic Republic of Afghanistan (GIRoA) and Prime Vendor contractors to resolve political issues to ensure continued operations.

Class II (Clothing & Textiles):

- Participated in the Clothing & Textile Governance Board and Charter development.

- Participated in FEMA's Hurricane scenario exercises to ensure DLA readiness for the 2010 hurricane season.

- Supported U.S. Central Command (USCENTCOM) by deploying a Warfighter Support Representative (WSR) to Iraq for six months.

- Reviewed the Concept of Operations (CONOPS), Theater Distribution Plans, and Interagency Agreements for C&T input.

Class III (B) (Bulk Petroleum):

- Continued to perform Integrated Materiel Management for all bulk petroleum associated with operations in support of DoD and other Federal customers. Maintained exceptional comprehensive fuels support for Operations Iraqi Freedom and Enduring Freedom.

- Supported service alternative fuel testing and certification efforts with targeted acquisitions of hydrotreated renewable fuels; to date, have procured over 600,000 gallons.

- Targeted research and development efforts to advance alternative fuel state of knowledge.

- Established DLA Energy as the Acquisition Manager for Pacific Command Green initiative for Fuels Transition Pacific.

- Signed a Strategic Alliance with the Air Transport Association with the stated objective of "Advancing the development and deployment of commercially viable, environmentally friendly, alternative aviation fuel".

- Solidified informational requirements for the Bulk Petroleum Common Operating Picture (BP-COP). Working both "high" and "low" side informational flows and improving ready access to bulk petroleum planning and operational information for all of DoD.

Upgraded the Petroleum Damage and Deficiency Report (REPOL) for improved web-based access and ease of reporting.

- Continued to develop a Joint Concept of Operations and Business Case Analysis for the Automatic Identification Technology (AIT) application in the bulk petroleum arena. Pursuing opportunities to improve and accelerate custody transfer, inventory, and in-transit visibility data collection that may be enhanced through the use of AIT in direct interface with Automatic Information Systems (AIS).

- Worked to improve the logistics of tactical equipment used in the storage and handling of bulk petroleum. Engaging both the Military Services and industry to better the supply and maintenance of fuel bladders. Coordinated and published a joint performance specification to standardize bladder operational capabilities. Currently establishing a bladder requirements steering group to de-conflict ordering from existent contracts. Also, working to analyze current acquisition practices to identify areas for improving quality assurance, responding to customer performance needs, and reducing costs to DoD.

- Continued to comprehensively improve joint bulk petroleum training availability and visibility through enhanced web-based access and web-enabling techniques. Improved and made available, through U.S. Joint Forces Command (USJFCOM) Joint Knowledge On-line, the Joint Petroleum Training Course to better prepare fuel logisticians for Combatant Command and contingency support duties.

- Acted as primary Lead Agent and formal Technical Review Authority for Joint Publication 4-03, Joint Bulk Petroleum and Water Doctrine. Rewrote the doctrine and helped guide operational planning and procedural document development.

- Interfaced with DoD components to integrate Alternative Fuels as feed stock streams into the DoD Bulk Petroleum supply chain. Chairs the Inter-Agency Working Group, involving all Federal organizations, to ensure cross-communications on individual initiatives.

Class IV (Construction and Barrier Materiel):

- Continued to engage the Combatant Commands to optimize sustainment and planning. Assigned Troop Support Planners (TSPs) to Combatant Commands to provide the warfighters with access to supply chain subject matter expertise. Deployed 6 of the 14 EA team members to USCENTCOM/ U.S. European Command (USEUCOM) (i.e., Iraq, Kuwait, and Kosovo) areas of responsibility (AOR). Actively engaged the warfighter to gain knowledge and insights into their needs/requirements in order to provide improved support to the Combatant Commander.

- Deployed TSPs to support U.S. Pacific Command (USPACOM), U.S. Northern Command (USNORTHCOM) and U.S. Southern Command (USSOUTHCOM) exercises.

- Participated in planning efforts to proactively support both the Iraq drawdown, and the increase of forces in Afghanistan.

- Leveraged our existing industrial capabilities by piggybacking on an already existing CL I contract in the AOR. This allowed us to provide uninterrupted support to the warfighter at the lowest possible cost.

- Pre-positioned 7000 CL IV containers and material worth approximately $116 million to date in Afghanistan in order to provide excellent customer support.

- Expanded our sourcing options in the AOR to maximize materiel availability, and to reduce customer wait time and overall logistics response time for CL IV items.

- Executed a $6.1 million Airfield Landing Mat (A-M2) Prepositioned Material Warstopper Investment Program which reduced the previous12-week lead-time to 30 days.

- Initiated work with the DLA Support Team-Iraq/Multi-National Coalition to obtain materiel visibility and to establish stockage objectives for inventory in the theater's CL IV engineering yards.

- Performed several Logistics Sustainability Analyses. TSPs identified inventory support shortfalls and other potential trouble spots that were then addressed by implementing process improvements.

- Participated in a USPACOM operations plan logistics sustainability analysis writing conference. Developed a detailed logistics support plan to address the USPACOM warfighter requirements.

- Continued to analyze/resolve previously identified supply chain gaps and seams. Closed 16 of the 39 gaps. Standardized the gaps and seams resolution process through a Lean Six Sigma project.

- Participated in FEMA's hurricane-scenario exercises. Ensured DLA readiness for the 2010 hurricane season.

- Executed four Lean Six Sigma studies which allowed us to analyze internal/external business practices and improve customer support by 85%.

- Developed a requirements forecasting and management planning concept to improve DLA Depot stockage levels. Incorporated CL IV forecasting into DLA's Integrated Consumable Items Support (ICIS) planning tool.

- Developed and awarded the first-time ever Joint Services Competitive Specification for Protective Barriers (i.e., Expeditionary Earth-Filled Protective Barriers).

- Participated in the Joint Logistics White Paper/Joint Supply Joint Integrating Concept Wargame, an initiative to improve joint logistics/supply support for the future operating environment.

Class VIII (Medical Materiel):

- Designated three new Theater Lead Agents for Medical Materiel (TLAMMs): the U.S. Army Medical Materiel Center-Korea (servicing U.S. Forces Korea), the U.S. Army Medical Materiel Center-Europe (servicing USAFRICOM) and the 18th Medical Group (servicing PACOM minus USFK). These operational partners enable visibility of tactical requirements from strategic levels and the programming and execution of strategic initiatives which directly support tactical needs. Additionally, the TLAMMs provide a conduit which enable effective coordination and application of strategic assets and materiel sources into tactical distribution.

- Made Capital Investments in the Product Data Bank (PDB) and the Functional Executive Agent Medical Support (FEAMS) toolsets which have improved support to the Warfighter and will increase the readiness of the DoD. The PDB has enabled sourcing of materiel to support Operations Iraqi and Enduring Freedom and improved standardization of materiel requirements both within the DoD and with the Department of Veteran Affairs. FEAMS will provide multiple aspects of support to include a requirements toolset to improve materiel requirements forecasting, a standardization toolset to increase materiel utilization, and a decision support toolset to most efficiently and effectively utilize medical materiel in retail and wholesale stocks.

- Improved joint Warstopper and Defense Working Capital Fund (DWCF) programming and utilization that has directly resulted in more efficient materiel support to the Services and Combatant Commands. After identification of needs that are solicited from the Services and Combatant Commands, Warstopper funds are programmed to meet the surge and sustainment requirements. Utilizing Warstopper funds produces an approximate return value of 7:1. In other words, for every dollar invested in Warstopper funds, a seven fold yield is realized when the materiel is required. This joint initiative results in much more efficient and effective use of programmed funds.

- Established the Defense Medical Logistics Supply Chain Council (DMLSCC) as a collaborative forum to achieve unity of effort and promote effective and efficient medical supply chain support for DoD health care operations globally.

- Improved the alignment and execution of the Office of the Assistant Secretary of Defense for Health Affairs (OASD/HA) and DLA CL VIII programs. Through implementation of a Joint Vision Statement (JVS) and associated Plan of Action and Milestones, the Defense Medical Logistics Balanced Scorecard has been developed. This Scorecard institutionalizes and aligns the Department's efforts to provide medical materiel to the COCOMs in the most effective and efficient manner. Additionally, this allows a Joint determination of a portfolio of capabilities that are best suited for the Warfighter. Through the collaborative action driven by the JVS, the Defense Medical Logistics Supply Chain Council and the Defense Medical Logistics Proponent Committee jointly prioritize and resource these projects.

ADDITIONAL INITIATIVES AND ACCOMPLISHMENTS FOR FISCAL YEAR 2010

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 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 of one of the JS-JIC's five recommended capabilities - "Operate the Joint Supply Enterprise".

Base Realignment and Closure (BRAC) 2005 Supply and Storage Implementation: The Office of the Secretary of Defense (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 (SS&D) Management Reconfiguration; and,

- Commodity Management Privatization.

The three recommendations will be fully implemented by September 15, 2011, enforced by law under the United States Congressional legislation.

BRAC 2005 Supply and Storage focuses on transformation through realignment and consolidation of similar operations across the DoD logistics enterprise, the goal being supply chain integration. With this BRAC implementation, the Military Services and DLA are working to create an integrated end-to-end supply chain operation for DoD that will optimize warfighter support and readiness. The BRAC Supply and Storage implementation is laying the foundation and serving as the catalyst for achieving future optimization of the defense logistics supply chain. The BRAC Supply and Storage recommendations, along with supporting systems and process changes, are designed to: increase buying power with suppliers, create smoother materiel flow, reduce customer wait time for parts, achieve inventory investment savings, and reduce redundancy in processes for the Department, all of which enable logistics economies and efficiencies that improve support to operational joint and expeditionary forces. BRAC 2005 also expands DLA's role in DoD logistics, moving the Agency beyond its traditional wholesale role to becoming a broader integrated logistics provider. In addition, BRAC also drives supporting business process, policy, and information systems changes to enhance DLA's ability to fulfill its new mission and responsibilities. The following are descriptions and a summary of accomplishments for the three Supply and Storage recommendations:

- **Depot-Level Reparable (DLR) Procurement Management Consolidation (including Consumable Item Transfer):**

    - **DLR Procurement Management Consolidation:** This recommendation creates a new single, integrated depot-level reparable procurement management provider supporting all Military Services' requirements by realigning the procurement management and related support functions for the procurement of new DLRs from the Military Services to DLA. From October 2007 through September 2010, over 360 full-time equivalent (FTE) positions transferred in place from the Air Force, Navy, and Army to DLA. During that period, a total of seven DLA DLR procurement operations detachments – collocated at Air Force Air Logistics Centers, Naval Inventory Control Points, and Army Life Cycle Management Commands – completed stand-up and one detachment is nearing complete stand-up. By September 2011, DLR procurement FTE transfer in support of the Marine Corps (Albany, GA) will be complete.

    - **Consumable Item Transfer (CIT):** The BRAC DLR recommendation also includes Consumable Item Transfer, which further consolidates consumable item management with one provider by transferring work related to the management of the remaining consumable items (except exempted items) from the Military Services to DLA. Over the course of implementing the CIT directive, which began in March 2007 and is slated for completion no later than September 2011, management responsibilities for approximately 71,700 National Stock Numbers (NSNs) are projected to transfer to DLA. As of August 2010, the Military Services have transferred more than 71,200 NSNs to DLA.

- **Supply, Storage, and Distribution (SS&D) Management Reconfiguration:** This recommendation consolidates the supply, storage, and distribution functions and associated inventories at the current DLA Defense Distribution depots with the Military Services' maintenance activities to support operations, maintenance, and production. There are two parts to the BRAC SS&D recommendation: 1) consolidate the SS&D functions and inventory from 13 Military Service industrial depot maintenance sites to DLA; and 2) reconfigure the defense distribution network.

  - **Industrial SS&D Function and Inventory Consolidation:** The transfers of SS&D functions, associated personnel, and inventory to DLA are progressing incrementally by Military Service. As of September 2010, a total of over 2,020 full-time equivalent positions (including contractors) have transferred in place from the Services to DLA to establish 11 of what will ultimately be 13 DLA SS&D sites (collocated with Military Service industrial depot maintenance operations and activated as a result of BRAC).

    - Air Force – By the end of July 2008, SS&D functions and over 850 associated FTEs at three Air Logistics Centers transferred in place to DLA with the activation of DLA Warner Robins (GA); DLA Oklahoma City (OK), and DLA Ogden (UT). Between August 2009 and January 2010, inventories at DLA Warner Robins were consolidated when nearly 197,000 DLA-managed national stock numbers with materiel valued at approximately $366 million transferred from the Air Force to DLA. To enable this inventory consolidation, EBS Inventory Management and Stock Positioning (IMSP) system functionality rolled out to support operations at these three DLA SS&D sites.

    - Navy – By the end of February 2009, SS&D functions and approximately 570 associated FTEs in total at the Fleet and Industrial Supply Centers (FISCs) that support Fleet Readiness Centers (FRCs) East, Southeast, and Southwest transferred in place to DLA. These transfers formed three DLA SS&D sites: DLA Aviation at Cherry Point (NC), Jacksonville (FL), and San Diego (CA). By the end of July 2009, SS&D functions and over 490 associated FTEs in total at two Naval Shipyards transferred to DLA to form two more DLA SS&D sites: DLA Maritime at Norfolk (VA) and DLA Maritime at Puget Sound (WA). Inventory consolidation is planned for DLA SS&D sites supporting Naval Shipyard and Navy Fleet Readiness Center customers.

    - Marine Corps – In September 2009, SS&D functions and approximately 25 associated FTEs transferred in place from Marine Corps Maintenance Center Albany to DLA, to form DLA Land at Albany (GA). In September 2010, SS&D functions and 21 associated FTEs transferred in place from Marine Corps Maintenance Center Barstow (CA) to DLA, establishing DLA Land at Barstow (CA).

- ♦ Army – Tobyhanna Army Depot (PA) transferred SS&D functions and over 30 associated FTEs to DLA in February 2010, forming DLA Land at Tobyhanna. Two other Army Depots, Corpus Christi (TX) and Anniston (AL), are scheduled to transfer SS&D functions and associated FTEs to DLA in FY 2011.

- o **Strategic Distribution:** This part of the BRAC SS&D recommendation reconfigures the DoD distribution network into four CONUS support regions, each having one Strategic Distribution Platform (SDP) and one or more Forward Distribution Points (FDPs). The current SDPs in San Joaquin, CA, and Susquehanna, PA, are being joined by new SDPs in Warner Robins, GA, and Oklahoma City, OK. The remaining 11 collocated distribution depots and one non-collocated depot are in the process of being reconfigured as FDPs. Their mission will be to provide storage and distribution support to collocated industrial customers and select local customers and to provide support for reimbursable work, end items, hard to handle items, and hazardous items. The entire Distribution Network will support global, regional, on-base, and industrial maintenance activities and is intended to create an efficient materiel flow for customers within a region; achieve inventory investment savings for DoD; and reduce customer wait time for parts. Specific activities underway include:

  - ♦ Continued construction of a general purpose warehouse at SDP Susquehanna, PA to absorb materiel relocated from its regional FDPs.

  - ♦ Execution of a robust materiel movement plan in close coordination with each Military Service to move inventory from the FDPs to their assigned SDP. To date, approximately two million cube of inventory has been moved out of the FDPs to the SDPs.

  - ♦ Continued internal re-warehousing and storage optimization projects at SDP Warner Robins, GA to improve the efficiency and effectiveness of its operations.

  - ♦ Continued construction of state-of-the-art consolidation, containerization and palletization capability at both SDP Warner Robins, GA and SDP Oklahoma City, OK.

  - ♦ Conducting storage aid projects at SDP San Joaquin, CA to reconfigure the storage layout of its warehouses that will allow the re-warehousing of materiel; this will improve the efficiency and effectiveness of its operations.

  The collective activities will drive infrastructure reductions at the FDPs and are on track for completion by the end of September 2011. Through the BRAC Supply and Storage implementation, materiel movement, rewarehousing, and storage optimization efforts as of September 2010, 10.5 million gross square feet of storage capacity have been returned.

In total over the course of the implementation, these efforts are expected to drive infrastructure reductions by approximately 15.1 million gross square feet.

- **Commodity Management Privatization:** This recommendation charges DLA with the responsibility for privatizing DoD's entire logistics process for three commodity lines: tires; packaged petroleum, oils and lubricants; and compressed gasses. Commodity Management Privatization requires DoD to disestablish the supply, storage, and distribution functions previously performed by DLA and the Military Services for these commodities and rely completely on private industry vendors to perform them. The privatization recommendation also transferred the supply contracting functions for these items from the Military Services to DLA. In executing this mandate, DLA assumed responsibility for these commodities from the Military Services and awarded four privatization contracts for land tires, aviation tires, chemicals and packaged petroleum products, and compressed and liquefied gasses and cylinders. Full implementation of all privatization contracts was completed in August 2008. For commodities covered under these contracts, vendors are now responsible for 100% of the supply support for customers (CONUS).

Enterprise Business System (EBS): DLA's EBS capabilities will continue to be leveraged as a major transformation initiative. It will expand 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:** As DLA's enterprise continues to extend 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 & Gas solutions to coexist in support of the DLA Energy mission requirements. At the highest level DLA Energy business processes and other DLA supply chain operations appear similar, but at a more detailed level there are differences to resolve. Energy Convergence System Integration blueprinting process, currently in progress, will align business processes with the enterprise software and the new commercial application. Energy Convergence will allow DLA to integrate fuels commodity management within the DLA Enterprise Architecture to include applications being introduced via DLA's Eprocurement and Real Property programs.

- **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 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 at DLA Warner Robins, the Supply Centers, and DDC, and continued roll-outs will occur for additional DLA SS&D sites.

- **Eprocurement:** Eprocurement is a planned post-production enhancement that will integrate the Government Procurement software into EBS, replacing remaining legacy contract writing systems. Eprocurement will provide integrated procurement functional capabilities to the ERP system, and add DLA organizations not originally intended to be addressed by the BSM program, resulting in an enterprise-wide contracting system. It will enhance the Agency's ability to perform the depot-level reparable (DLR) procurement management mission that resulted from the BRAC 2005 DLR recommendation.

- **Distribution Standard System (DSS):** DSS provides a fully integrated storage and distribution capability that optimizes transportation planning for vendor shipments and provides customers with real-time supply chain information.

- **Reutilization Business Integration (RBI):** Formerly known as the Reutilization Modernization Program (RMP), RBI is DLA's strategy to replace the current Disposal Automated Information System suite of applications. RBI will integrate requirements into DLA Enterprise Business System (EBS), Distribution Standard System (DSS), DLA Document Services electronic document management applications, Integrated Data Environment (IDE), and Federal Logistics Information System (FLIS) for the RBI portfolio solution. This integration will incorporate DLA Disposition Services information systems into the DLA Enterprise Information Technology (IT) Solution Set, with the intent of maximizing use of existing IT solutions in the execution of DLA Disposition Services business.

- **DLA Real Property Increment 2:** This is an increase of the functionality deployed in the first increment of Real Property and additional capabilities from the Plant Maintenance and Records Management SAP modules. The results of this increment will be the integration of modules within the DLA EBS that will standardize the enterprise-wide management of real property assets to include: management of Real Estate inventory, projects, and facilities maintenance; visibility of environmental liabilities; financial compliance; and audit readiness.

Retail Integration: Retail integration is a transformational program to extend the 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 (Inventory Management and Stock Positioning – IMSP)), 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; Naval Air Station Whidbey Island, WA; Naval Air Weapons Station China Lake, CA; Marine Corps Air Station Miramar, CA; and Naval Auxiliary Landing Field San Clemente, CA. DLA is sustaining JRIMM throughout the island of Oahu, 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 return materiel that they no longer need to the wholesale supply chain to support other customers' requirements. Each year DLA processes $400 million to $700 million of the Military Services' excess materiel through the Materiel Returns Program and receipt of unanticipated returns resulting in approximately $70 million to $100 million in annual inventory investment savings. These assets, in turn, preclude the need to initiate procurement actions to acquire inventory to meet projected requirements, 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. During FY 2010, DoD reutilized $1.7 billion worth of excess inventory. Collectively, these efforts optimize the use of materiel that is available to the Department and help minimize the investment in inventory.

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 Managers' Internal Control and Continuous Process Improvement.

Enterprise Organizational Alignment (EOA) 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).

Reservists: Among the manpower available to DLA were 759 reservists - authorized and funded by the Military Services. The reservists are utilized by DLA in a variety of capacities in support of peacetime operations, contingencies, and wartime surges. Since September 11, 2001, the wartime surges were supported with the mobilization of 714 reservists who served a total of 950 tours of duty in support of Operations Enduring Freedom and Iraqi Freedom. During FY 2010, 117 reservists mobilized and provided support to DLA's three Support Teams (DSTs) in Kuwait, Iraq, and Afghanistan, while one reservist staffed the Sustainment Division of the U.S. Central Command's Deployment and Distribution Operations Center. Collectively, activated reservists logged more than 40,600 man-days of support to DSTs, field activities, and headquarters missions. The Agency's Stewardship Excellence initiative is carried out by the JRF in the 7,000 man-days of operational support provided (at no cost) to the Agency.

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Defense Logistics Agency
Working Capital Fund

Consolidated and Combined Financial Statements
As of and for the Fiscal Years Ended September 30, 2010 and 2009

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DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Consolidated Balance Sheet
As of September 30, 2010 and 2009
(In Thousands)

	2010	2009
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,481,663	$ 1,154,783
Other Assets (Note 6)	124,988	125,009
Total Intragovernmental Assets	1,606,651	1,279,792
Cash and Other Monetary Assets (Note 7)	6,300	10,010
Accounts Receivable, Net (Note 5)	481,313	371,195
Inventory and Related Property, Net (Note 9)	19,561,515	17,340,386
General Property, Plant, and Equipment, Net (Note 10)	1,806,658	1,993,258
Other Assets (Note 6)	38,122	23,405
TOTAL ASSETS	23,500,559	21,018,046
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	466,856	95,552
Other Liabilities (Notes 15 & 16)	74,587	52,837
Total Intragovernmental Liabilities	541,443	148,389
Accounts Payable (Note 12)	2,908,334	3,129,658
Military Retirement and Other Federal Employment Benefits (Note 17)	235,027	232,820
Environmental and Disposal Liabilities (Note 14)	47,040	76,347
Other Liabilities (Notes 15 & 16)	278,810	246,682
TOTAL LIABILITIES	4,010,654	3,833,896
NET POSITION		
Cumulative Results of Operations – Other Funds	19,489,905	17,184,150
TOTAL NET POSITION	19,489,905	17,184,150
TOTAL LIABILITIES AND NET POSITION	$ 23,500,559	$ 21,018,046

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, 2010 and 2009
(In Thousands) (See Note 18)

		2010		2009
PROGRAM COSTS				
Gross Costs	$	41,981,799	$	44,049,518
Less: Earned Revenue		(43,680,363)		(39,570,186)
Net Program Costs		(1,698,564)		4,479,332
NET COST OF OPERATIONS	$	(1,698,564)	$	4,479,332

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, 2010 and 2009
(In Thousands) (See Note 19)

	2010	2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 17,184,150	$ 21,294,440
Budgetary Financing Sources:		
Appropriations used	507,854	423,335
Transfers-in/out without reimbursement (+/-)	40,000	-
Other Financing Sources:		
Donations and forefeitures of property	-	-
Transfers-in/out without reimbursement (+/-)	(146,060)	(216,918)
Imputed financing from costs absorbed by others	205,397	162,625
Total Financing Sources	607,191	369,042
Net Cost of Operations (+/-)	(1,698,564)	4,479,332
Net Change	2,305,755	(4,110,290)
Cumulative Results of Operations	19,489,905	17,184,150
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	507,965	423,335
Appropriations transferred-in/out (+/-)	-	-
Other adjustments (rescissions, etc.) (+/-)	(111)	-
Appropriations used	(507,854)	(423,335)
NET POSITION	$ 19,489,905	$ 17,184,150

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, 2010 and 2009
(In Thousands) (See Note 20)

		2010		2009
BUDGETARY FINANCING ACCOUNTS				
Budgetary Resources:				
Unobligated balance, brought forward, October 1	$	(7,305)	$	22,761
Recoveries of prior year unpaid obligations		1,236,775		2,382,479
Budget authority				
Appropriation		507,965		423,335
Contract authority		42,909,100		37,632,472
Spending authority from offsetting collections:				
Earned				
Collected		40,702,390		38,123,170
Change in receivables from Federal sources		(141,325)		21,259
Change in unfilled customer orders				
Advance received		(6,257)		(32,160)
Without advance from Federal sources		32,124		17,957
Subtotal		84,003,997		76,186,033
Nonexpenditure transfers, net, anticipated and actual		40,000		-
Permanently not available		(42,045,950)		(40,584,206)
Total Budgetary Resources	$	43,227,517	$	38,007,067

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Combined Statement of Budgetary Resources (Continued)
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 43,268,619	$ 38,014,372
Subtotal	43,268,619	38,014,372
Unobligated balance:		
Apportioned	-	-
Exempt from apportionment	(41,102)	(7,305)
Subtotal	(41,102)	(7,305)
Unobligated balance not available	-	-
Total Status of Budgetary Resources	43,227,517	38,007,067
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	18,847,625	20,964,246
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(8,019,086)	(7,979,870)
Total unpaid obligated balance	10,828,539	12,984,376
Obligations incurred, net	43,268,619	38,014,372
Less: Gross outlays	(39,756,308)	(37,748,514)
Less: Recoveries of prior year unpaid obligations, actual	(1,236,774)	(2,382,479)
Change in uncollected customer payments from Federal sources (+/-)	109,200	(39,216)
Obligated balance, net, end of period		
Unpaid obligations	21,123,162	18,847,625
Less: Uncollected customer payments from Federal sources (+/-)	(7,909,886)	(8,019,086)
Total unpaid obligated balance, net, end of period	13,213,276	10,828,539
Net Outlays:		
Gross outlays	39,756,308	37,748,514
Less: Offsetting collections	(40,696,132)	(38,091,010)
Net Outlays	$ (939,824)	$ (342,496)

The accompanying notes are an integral part of these statements.

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Defense Logistics Agency
Working Capital Fund

Notes to the
Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2010 and 2009

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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 Defense Logistics Agency (DLA) Working Capital Fund (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 in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which 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 discernable.

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 in accordance with 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 nonDoD customers. The DLA activity groups executing these funds include Supply Chain Management (SCM), DLA Energy and DLA Document Services. The SCM is comprised of: DLA Land and Maritime, DLA Aviation, DLA Troop Support, DLA Disposition Services and DLA Distribution. DLA also manages the DLA Strategic Materials Transaction Fund that is a separate reporting entity for financial statement purposes.

The DLA continues to leverage its operational efficiencies to implement the Base Realignment and Closure 2005 Supply and Storage recommendations. The DLA has engaged in the following transformational initiatives with the Military Departments: (1) Commodity Management Privatization to privatize the supply and storage of selected commodities (i.e., tires, compressed gases and petroleum, oil, lubricant packages), (2) Depot - Level Reparable (Procurement Management/Consumable Item Transfer) to realign procurement management of repair parts from the Military Services to DLA at selected sites and to transfer supply management of selected consumable items to DLA, and (3) Supply, Storage and Distribution Reconfiguration to realign supply, storage and distribution functions through consolidation and management reconfiguration at 13 sites.

C. Appropriations and Funds

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

Working capital funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and 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 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. The DLA's SCM is 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 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 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 payroll expenses, 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 DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While 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 resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the 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 a true Fund Balance with Treasury (FBWT) on the financial statements.

J. Foreign Currency

Not Applicable to DLA WCF.

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 in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

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.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA WCF.

M. Inventories and Related Property

The DLA values approximately 71% of its resale inventory using the moving average cost method. An additional 29% (fuel inventory) is reported using the first-in-first-out method. The DLA reports a negligible value of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with Statement of Federal Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The DLA is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

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

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.

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

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 meets 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 in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The 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 and annual leave 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. 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 Bases

Not Applicable to DLA WCF.

W. Unexpended Obligations

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

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

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

X. Significant Events

Not Applicable to DLA WCF.

Y. Fiduciary Activities

Not Applicable to DLA WCF.

Note 2. Nonentity Assets

As of September 30	2010	2009
(Amounts in thousands)		
Nonfederal Assets		
Cash and Other Monetary Assets	$ 6,300	10,011
Accounts Receivable	5,351	4,554
Total Nonfederal Assets	$ 11,651	$ 14,565
Total Nonentity Assets	$ 11,651	$ 14,565
Total Entity Assets	$ 23,488,908	$ 21,003,481
Total Assets	$ 23,500,559	$ 21,018,046

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

Cash and Other Monetary Assets consist of cash collected by DLA Disposition Services that will be paid to other entities. When DLA Disposition Services enters into a long-term contract with a buyer purchasing excess/surplus government property or scrap, it requires a prepayment. After contract closeout, any remaining balance is refunded to the sales contractor.

Additional drivers for the overall decrease to Cash and Other Monetary Assets include business practice changes implemented in FY 2010. In FY 2009, the deposit account included credit card collections payable to the commercial/scrap venture sales partner and the portion of sales proceeds from certain types of property that DLA Disposition Services is required to return to the Military Services or Defense Agencies that originally owned the property. Credit Card collections and shared proceeds were eliminated from the deposit account in FY 2010 as DLA reconciled balances and moved deposit funds from the old DDARS to new DDARS rehost platform. Per Enterprise Operational Accounting System (EOAS) procedures, proceeds sharing transactions are now processed directly from the working capital fund, vice the deposit account. Effective FY 2010, only pre-payments will be reported in Cash and Other Monetary Assets; all other cash components will be reported in DLA Defense Working Capital Fund.

The Nonfederal Accounts Receivable consists of interest, penalties, and fines related to the Nonfederal accounts receivable that have been referred to the Defense Finance and Accounting Service debt management for collection. These accounts receivable are nonentity because upon collection the amounts will be transferred to the U.S. Treasury.

Note 3. Fund Balance with Treasury

The U.S. Treasury maintains and reports the Defense Working Capital Fund (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, DLA does not report Fund Balance with Treasury (FBWT) separately.

For 4th Quarter, FY 2010 DLA transferred a cash balance of $1,487,679,935.10 to the DWWCF TI 97 account.

Status of Fund Balance with Treasury

As of September 30	2010	2009
(Amounts in thousands)		
Unobligated Balance	$ (41,102)	$ (7,305)
Obligated Balance not yet	21,123,165	18,847,626
NonFBWT Budgetary	(18,260,481)	(17,506,419)
Total	$ 2,821,582	$ 1,333,902

The Status of Fund Balance with Treasury reflects the budgetary resources to support FBWT and is 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.

NonFBWT Budgetary Accounts reduces the Status of FBWT. The DLA's NonFBWT Budgetary Accounts consists of estimated indefinite contract authority; contract authority carried forward; substitution of contract authority; unfilled customer orders without advance and reimbursements and other income earned.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. There are no restrictions on DLA's unobligated balances.

Note 4. Investments and Related Interest

Not Applicable to DLA WCF.

Note 5. Accounts Receivable

As of September 30	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,481,663	N/A	$ 1,481,663
Nonfederal Receivables (From the Public)	$ 539,130	$ (57,817)	$ 481,313
Total Accounts Receivable	$ 2,020,793	$ (57,817)	$ 1,962,976

Note 5. Accounts Receivable (continued)

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,154,783	N/A	$ 1,154,783
Nonfederal Receivables (From the Public)	$ 455,744	$ (84,549)	$ 371,195
Total Accounts Receivable	$ 1,610,527	$ (84,549)	$ 1,525,978

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 in accordance with the Intragovernmental Business Rules.

Note 6. Other Assets

As of September 30	2010	2009
(Amounts in thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 63	$ 84
Other Assets	124,925	124,925
Total Intragovernmental Other Assets	$ 124,988	$ 125,009
Nonfederal Other Assets		
Outstanding Contract Financing Payments	38,095	23,090
Advances and Prepayments	27	315
Other Assets (With the Public)	0	0
Total Nonfederal Other Assets	$ 38,122	$ 23,405
Total Other Assets	$ 163,110	$ 148,414

Composition of Other Lines

Intergovernmental Other Assets consist of crude oil held by the Department of Energy (DoE) on behalf of the Department of Defense (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.

The balance of Outstanding Contract Financing Payment includes $38.2 million in contract financing payments and an additional $6.2 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7. Cash and Other Monetary Assets

As of September 30	2010	2009
(Amounts in thousands)		
Cash	$ 6,300	$ 10,010
Total Cash, Foreign Currency, & Other Monetary Assets	$ 6,300	$ 10,010

The entire Cash balance is restricted because it consists of prepayments, credit card collections, and sales proceeds that will be paid to other entities. Refer to Note 2, Nonentity Assets for details.

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA WCF.

Note 9. Inventory and Related Property

As of September 30	2010	2009
(Amounts in thousands)		
Inventory, Net	$ 19,561,515	$ 17,340,386
Total	$ 19,561,515	$ 17,340,386

Restrictions

The DLA Supply Chain Management has restrictions of $87.6 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 Supply Chain Management (SCM) and Energy Management. The SCM inventory is reported in the Enterprise Business System (EBS). Energy Management is reported in the Business System Modernization - Energy (BSM-E).

Inventory for SCM consists of Troop and Weapon Systems Support supply chains. Troop Support supply chains include Clothing and Textiles; Construction and Equipment; Medical; and Subsistence. Weapon Systems inventory includes repair parts for the Aviation and the 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 2010, DLA reported $11,037.5 billion inventory using Moving Average Cost and $5,577.8 billion inventory using Transactional First-In, First-Out.

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 (MRE) 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's Energy Management then works with the Combatant Commanders to position those stocks where space permits and within the funded volumes. The current wartime stockage objective is 34.5 million barrels (mbbls). Peacetime bulk petroleum inventory requirements are calculated by Energy Management in accordance with guidelines provided by OUSD(C), and are positioned by Energy Management prior to placing war reserve inventories. The peacetime objective is 25.7 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	2010 Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in				
Inventory Categories				
Available and Purchased for Resale	$ 19,440,314	$ 0	19,440,314	LAC, MAC
Held for Repair	202,002	(80,801)	121,201	LAC, MAC
Excess, Obsolete, and Unserviceable	6,806,971	(6,806,971)	0	NRV
Total	$ 26,449,287	$ (6,887,772)	19,561,515	

As of September 30	2009 Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
Inventory Categories				
Available and Purchased for Resale	$ 17,309,958	$ (1)	17,309,957	LAC, MAC
Held for Repair	50,715	(20,286)	30,429	LAC, MAC
Excess, Obsolete, and Unserviceable	5,997,472	(5,997,472)	0	NRV
Total	$ 23,358,145	$ (6,017,759)	17,340,386	

Note 10. General PP&E, Net

As of September 30	2010				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 Or 40	$ 2,061,841	$ (1,387,447)	$ 674,394
Software	S/L	2-5 Or 10	1,432,175	(622,363)	809,812
General Equipment	S/L		564,916	(417,977)	146,939
Assets Under Capital Lease	S/L		609	(365)	244
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	174,689	N/A	174,689
Other			612	(32)	580
Total General PP&E			$ 4,234,842	$ (2,428,184)	$ 1,806,658

As of September 30	2009				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Land	N/A	N/A	$ 0	N/A	$ 0
Buildings, Structures, and Facilities	S/L	20 Or 40	2,068,923	$ (1,312,750)	756,173
Leasehold Improvements	S/L	lease term	0	0	0
Software	S/L	2-5 Or 10	1,389,693	(562,969)	826,724
General Equipment	S/L	5 or 10	657,425	(394,690)	262,735
F. Military Equipment	S/L	Various	0	0	0
Shipbuilding (Construction-in-Progress)	N/A	N/A	0	0	0
Assets Under Capital Lease	S/L	lease term	0	0	0
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	147,416	N/A	147,416
Other			266	(56)	210
Total General PP&E			$ 4,263,723	$ (2,270,465)	$ 1,993,258

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

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 DLA Aviation operates and serves as the Defense Supply Center Richmond (DSCR) Officer's Club and is listed in the National Register, (2) a Native American monument which was jointly established by DLA Aviation and a local Native American organization to honor Native American culture, and (3) two cemeteries located at DSCR which DLA Aviation has administrative and curatorial responsibilities. Refer to the Table below for additional information.

As off September 30, 2010

Asset	**Depreciation/ Amortization Method**	**Acquistion Date**	**Service Life Years**	**Acquistion Value**	**Accum 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	$ 163,160.47	$ 49,657.53
Net Belllwood Club				$ 695,018.00	$ 645,360.47	$ 49,657.53
Greogry 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**	**$ 645,360.47**	**$ 128,703.53**

Current Annual Depreciation on Bellwood Club Capital Improvements Handicapped Ramps	**Years**	**Acq Costs**	**Anuual Depre**	**Monthly Depre**
	20	$ 212,818.00	$ 10,640.90	$ 886.74

Assets Under Capital Lease

As of September 30	2010	2009
(Amounts in thousands)		
Entity as Lessee, Assets Under Capital Lease		
Equipment	609	0
Accumulated Amortization	(365)	0
Total Capital Leases	$ 244	$ 0

No Disclosures Required.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2010	2009
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	25,288	24,437
Total Intragovernmental Liabilities	$ 25,288	$ 24,437
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	235,026	232,821
Environmental Liabilities	38,299	9,237
Other Liabilities	29	4
Total Nonfederal Liabilities	$ 273,354	$ 242,062
Total Liabilities Not Covered by Budgetary Resources	$ 298,642	$ 266,499
Total Liabilities Covered by Budgetary Resources	$ 3,712,012	$ 3,567,397
Total Liabilities	$ 4,010,654	$ 3,833,896

Liabilities Not Covered by Budgetary Resources include 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. 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.

Nonfederal Liabilities Other consists of contingent legal liabilities.

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 $235.0 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	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 466,856	$ N/A	$ 466,856
Nonfederal Payables (to the Public)	2,908,334	0	2,908,334

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$		$ 95,552
Nonfederal Payables (to the Public)	3,129,646	95,552	$ N/A
Total	$ 3,225,198	$ 12	$ 3,225,210

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

Note 13. Debt

Not Applicable to DLA WCF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2010	2009
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
B. Other Accrued Environmental Liabilities—Non-BRAC		
1. Environmental Corrective Action	47,040	76,347
Total Environmental Liabilities	$ 47,040	$ 76,347

Environmental Disclosures

The DLA's Environmental Liabilities (EL) are derived from current and out-year Remedial Action Cost Engineering and Requirements (RACER) estimates related to DLA's Defense Energy Support Center for 268 sites; 207 sites associated with closure costs, and 61 sites are corrective action costs. In August 2009, DLA executed the RACER model and generated the fiscal year (FY) 2010 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

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 cleanup 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 follow the Comprehensive Environmental Response, Compensation, and Liability Act; Resource Conservation and Recovery Act; and the Superfund Amendments and Reauthorization Act to clean up contamination on Installations managed 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 has cleanup requirements for Non-BRAC Installations. All cleanups are 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 model, an independently validated model, to estimate environmental costs. The RACER Steering Committee validates the model in accordance with Department of Defense (DoD) Instruction 5000.61 and uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

The DLA provides RACER estimated Non-BRAC costs associated with General Property, Plant, and Equipment (General PP&E). Initial Data on the environmental cost linked to General PP&E was gathered during FY2006 and is the basis for the development, implementation, and reporting. In accordance with the DoD FMR Volume 4, Chapter 13, the General PP&E removal and site restoration costs will be amortized over the expected life of the asset.

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

The DLA had changes in estimates for FY 2010 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA is not aware of any pending changes but the EL are expected to fluctuate due to changes in laws and regulations, change in agreements with regulatory agencies, and advances in technology. The FY 2010 CTC has incorporated the DoD inflation factors into the Non-BRAC closure estimates. The latest version of RACER (2009 version 10.2) was used to rebaseline estimates.

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

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

Although DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible, they are generally considered accurate at +/- 20%. This percentage is supported by a 2004 RACER validation. RACER is currently undergoing another validation that will provide updated supporting statistical analysis. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

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

Note 15. Other Liabilities

As of September 30	2010		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	27,921	25,288	53,209
Custodial Liabilities	5,351	0	5,351
Employer Contribution and Payroll Taxes Payable	16,027	0	16,027
Total Intragovernmental Other Liabilities	$ 49,299	$ 25,288	$ 74,587
Nonfederal			
Accrued Funded Payroll and Benefits	$ 262,347	$ 0	$ 262,347
Advances from Others	3,528	0	3,528
Deposit Funds and Suspense Accounts	6,300	0	6,300
Capital Lease Liability	247	0	247
Contract Holdbacks	1	169	170
Employer Contribution and Payroll Taxes Payable	13	0	13
Contingent Liabilities	29	6,176	6,205
Total Nonfederal Other Liabilities	$ 272,465	$ 6,345	$ 278,810
Total Other Liabilities	$ 321,764	$ 31,633	$ 353,397

Note 15. Other Liabilities (continued)

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Advances from Others	$ 4,143	$ 0	$ 4,143
E. FECA Reimbursement to the Department of Labor	0	30,293	30,293
F. Custodial Liabilities	4,554	0	4,554
G.Employer Contribution and Payroll Taxes Payable	13,847	0	13,847
I. Total Intragovernmental Other Liabilities	$ 22,544	$ 30,293	$ 52,837
(Amounts in thousands)			
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 223,238	$ 0	$ 223,238
B. Advances from Others	5,587	0	5,587
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	10,038	0	10,038
I. Contract Holdbacks	1	359	360
J.Employer Contribution and Payroll Taxes Payable	13	0	13
K.Contingent Liabilities	4	7,442	7,446
M. Total Nonfederal Other Liabilities	$ 238,881	$ 7,801	$ 246,682
3. Total Other Liabilities	$ 261,425	$ 38,094	$ 299,519

Other Liabilities (Intragovernmental)

The DLA Federal Employee Compensation Act (FECA) bill of $24.1 million for FY 2010 was paid in 1st Quarter, FY 2011 to the Department of Labor, versus payment of the FY 2009 FECA bill in 4th Quarter.

Custodial Liabilities

Custodial Liabilities consists of Interest Receivables, Penalties, Fines and Administrative Fees for $5.4 million. Employer Contribution and Payroll Taxes Payable $16.0 million contribution made on employee benefits for Civil Service Retirement Systems (CSRS), Federal Employees Retirement Systems (FERS), Federal Employees Health Benefits (FEHB, and Federal Employees Group Life Insurance (FEGLI) Program.

Other Liabilities (Nonfederal)

Accrued Funded Payroll and Benefits $262.3 million based on accrual of 19 days for Fiscal Yearend 2010.

Contingent Liabilities

Contingent Liabilities includes $6.2 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 Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contractor-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 Judgment Fund liabilities in Note 12, Accounts Payable, and Note 15, Other Liabilities.

The DLA has a reasonably possible loss contingency of $1.0 million. This contingency is from five cases in which the OGC is the party. The DLA's Case Management System (CMS) is used by OGC to project the outcome and value of open cases. The CMS projects a minimum liability of approximately $1.0 million and a maximum liability of approximately $11.6 million.

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

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	2010		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 235,027	$ 0	$ 235,027
Total Other Benefits	$ 235,027	$ 0	$ 235,027
Total Military Retirement and Other Federal Employment Benefits:	$ 235,027	$ 0	$ 235,027

As of September 30	2009		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
FECA	$ 232,820	$ 0	$ 232,820
Total Other Benefits	$ 232,820	$ 0	$ 232,820
Total Military Retirement and Other Federal Employment Benefits:	$ 232,820	$ 0	$ 232,820

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the Department of Labor's (DOL) Employment Standards Administration 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 2010 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:

3.653% in Year 1
4.300% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2010 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

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

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2010 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2010 projection to the average pattern for the projections of the most recent three years.

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	2010	2009
(Amounts in thousands)		
Intragovernmental Costs	$ 2,472,677	$ 1,538,962
Public Costs	39,509,122	42,510,556
Total Costs	$ 41,981,799	$ 44,049,518
Intragovernmental Earned Revenue	$ (38,711,463)	$ (34,491,729)
Public Earned Revenue	(4,968,900)	(5,078,457)
Total Earned Revenue	$ (43,680,363)	$ (39,570,186)
Net Cost of Operations	$ (1,698,564)	$ 4,479,332

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

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

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

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.

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 2010.

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

No Disclosures Required for DLA WCF.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2010	2009
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 17,351,529	$ 15,217,250
Total	$ 17,351,529	$ 15,217,250

Abnormal Balance

USSGL Account 4620 ($41,101,890.41) Unobligated Funds Exempt from Apportionment, and Statement of Budgetary Resources Line 1, Unobligated balance, brought forward, October 1 ($7,304,687.84).

In FY 2008, DLA Document Services recorded positive Annual Operating Results (AOR). To bring DLA Document Services AOR closer to the breakeven point, OSD mandated lower billing rates for FY 2009 and FY 2010. As a result of the lower rates, DLA Document Services obligations exceeded the current year spending authority from offsetting collections.

In addition, DLA Document Services currently obligates funds in advance of customer orders. This business practice occurs because DLA Document Services has to enter into one-year contractual agreements for copiers and production copier maintenance at the beginning of the fiscal year. These contracts are non-severable contracts; therefore, the entire amount has to be obligated upfront when the contracts are signed. The activity does not earn the revenue upfront, but rather revenue is recognized when the signed orders are received from the customers, reducing the abnormal unobligated balance by fiscal year-end.

DLA Document Services abnormal balance does not reflect a violation of the Anti-Deficiency Acts (ADA) because violations of the ADA are measured at the Defense Working Capital Fund level (DWCF). For 4th Quarter, FY 2010, the DWCF reflects a normal unobligated balance.

Apportionment Categories for Obligations

The DLA DWCF had Apportionment Category A-Direct and Reimbursable Obligations Incurred, Category B-Direct Obligations Incurred and Obligations Exempt from Apportionment. The table below provides a summary of applicable apportionment categories.

($ millions)	Category A	Category B	Totals
Direct Obligations Incurred	0.0	0.0	0.0
Reimbursable Obligations Incurred	0.0	43.3B	43.3B
Obligations Exempt From Apportionment	0.0	(41.1M)	(41.1M)
Total	0.0	43.2B	43.2B

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2010	2009
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 43,268,619	$ 38,014,372
Less: Spending authority from offsetting collections and recoveries (-)	(41,823,707)	(40,512,705)
Obligations net of offsetting collections and recoveries	$ 1,444,912	$ (2,498,333)
Net obligations	$ 1,444,912	$ (2,498,333)
Other Resources:		
Transfers in/out without reimbursement (+/-)	(146,060)	(216,918)
Imputed financing from costs absorbed by others	205,397	162,625
10. Net other resources used to finance activities	$ 59,337	$ (54,293)
Total resources used to finance activities	$ 1,504,249	$ (2,552,626)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Undelivered Orders (-)	$ (2,134,279)	$ 2,112,867
Unfilled Customer Orders	25,868	(14,204)
Resources that fund expenses recognized in prior Periods (-)	(29,355)	(32,697)
Resources that finance the acquisition of assets (-)	(33,766,512)	(30,751,891)
Other (+/-)	146,060	216,917
Total resources used to finance items not part of the Net Cost of Operations	$ (35,758,218)	$ (28,469,008)
Total resources used to finance the Net Cost of Operations	$ (34,253,969)	$ (31,021,634)

As of September 30		2010		2009
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in exchange revenue receivable from the public (-)		(521,260)		(5)
Other (+/-)		5,904		2,134
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	(515,356)	$	2,129
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	189,514	$	140,606
Revaluation of assets or liabilities (+/-)		139,102		797,314
Other (+/-)				
Cost of Goods Sold		32,799,016		34,550,789
Operating Material and Supplies Used		0		0
Other		(56,871)		10,128
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	33,070,761	$	35,498,837
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	32,555,405	$	35,500,966
Net Cost of Operations	$	(1,698,564)	$	4,479,332

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 operation 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 $132,090 to bring it into balance with the Statement of Net Cost (SoNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems, to Other Components Not Requiring or Generating Resources.

The following note schedule lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

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

Composition of Other Lines

Resources Used to Finance Items Not Part of Net Cost of Operations: Other consists of transfers in from other activities and transfers out to other activities. This includes the end of quarter Fund Balance with Treasury (FBWT) that is transferred to or from Defense-Wide Working Capital Fund (DWWCF) component level, where the DWWCF FBWT is managed.

Refer to Note 1.I., Significant Accounting Policies, Funds with the U.S. Treasury, for further details and disclosures.

Components Requiring or Generating Resources in Future Period: Other consists of worker's compensation and Federal Employees Compensation Act.

Components Not Requiring or Generating Resources: Other is comprised of changes in the allowance for bad debt and Cost Capitalization Offset.

Note 22. Disclosure Related to Incidental Custodial Collection

Not Applicable to DLA WCF.

Note 23. Earmarked Funds

Not Applicable to DLA WCF.

Note 24. Fiduciary Activities

Not Applicable to DLA WCF.

Note 25. Other Disclosures

Not Applicable to DLA WCF.

Note 26. Restatements

Not Applicable to DLA WCF.

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Defense Logistics Agency
Working Capital Fund

Required Supplementary Information
For the Fiscal Years Ended September 30, 2010 and 2009

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Heritage Assets

For Fiscal Year Ended September 30, 2010

HERITAGE ASSETS For Fiscal Year Ended September 30, 2010					
Heritage Asset Categories	Measurement Quantity	As of 10/01/09	Additions	Deletions	As of 9/30/10
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

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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 DLA Aviation 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, DLA Aviation maintains a Native American monument in honor of Native American culture and two cemeteries.

The FY 2010 categories are defined as follows:

Buildings and Structures

Buildings and structures listed or eligible for listing with 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, 2010 (in Millions)

Property Type	Current Fiscal Year (CFY)		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$ 33,000	$ 332	1.01%
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)	NA	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).

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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 seven supply chains at these three centers include: aviation, land, and maritime (associated with weapon system spare parts and related consumable materiel), construction and equipment, food, clothing and textiles, 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 2010, DLA supported nearly 1,600 different weapon systems and managed fuel that generated sales of 129 million barrels. 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 $43.4 billion during FY 2010. This was an increase of almost $4.2 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 5.3 million separate line items that support the eight 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 the 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 Materiel Sourcing (SMS), Warstopper Program, Strategic Supplier Alliances (SSAs), Supply Chain Alliances (SCAs), and Performance-Based Logistics (PBL):

- **Strategic Materiel Sourcing (SMS):** SMS focuses on stratifying and satisfying customer driven high demand and readiness hardware items – almost 283,000 of the more than 3.8 million hardware items managed by DLA - through long-term agreements. While the targeted SMS items make up only about 7% of the DLA managed hardware items, they account for 88% of its hardware procurement actions and 87% of sales. The primary performance measurement of the SMS program is inventory savings. Since the inception of this program, DLA has realized over $335 million in one-time inventory savings and currently has more than 203,000 items under long-term agreements. These agreements include Prime Vendor Agreements, Corporate Contracts, and standard Long-Term Contracts.

- **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 2008 the Warstopper program has offset over $4.7 billion in War Reserve Materiel inventory purchases - a return on investment of more than 6.5:1. DLA expects a similar ROI on the $83.7 million Warstopper Program investment made in FY 2010.

- **Strategic Supplier Alliances (SSAs):** SSAs are long-term partnerships - formed with DLA's key suppliers - that allow 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.

- **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. To date, DLA has formed SCAs with 22 suppliers. Three additional SCAs are planned for completion in FY 2011. To assist all suppliers with their operational planning, DLA provided them with a tool, the Supplier Requirements Visibility Application (SRVA), 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.

- **Performance-Based Logistics (PBL):** PBLs are: 1) the preferred contract method to support weapon systems; 2) mandatory for all new major systems and for fielded Acquisition Category (ACAT) I and II systems; and 3) expected to increase support to warfighters through increased materiel availability, improved reliability, and enhanced obsolescence management. The strategy is to increase partnering with PBL Product Support Integrators (PSI) as a Product Support Provider; expand DLA capability to be the selected PSI in support of Military Services PBL initiatives; and to leverage DoD buying power through existing Strategic Supplier Alliances, Supply Chain Alliances, and other related DLA initiatives. DLA sold almost $302.5 million worth of materiel in FY 2010 through its 20 active PBL partnerships where the majority of those sales were obtained from commercial vendors (who were awarded Military Service PBL contracts and then utilized DLA as a source of supply for consumable items). DLA expects to fully execute five more PBL arrangements by FY 2012.

- **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 (FOC) in July 2007. In March 2008, EBS CRM was extended out to our Supplier Operations business area in order to capture life-cycle documentation of customer issues such as expedite requests. Approximately 6,100 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).

    - Automatic distribution of survey requests to customers based on set business rules for each type of survey.

    - An EBS-CRM technical upgrade rolled out in January 2010 that provided new features and functionality (more user-friendly views and functionality; improved search parameter capabilities, program compatibility, and access/performance; and reduced contact duplication).

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 transition of metrics data to the Fusion Center provides DLA management with greater access to more timely, complete, accurate, and reliable performance and financial data. Metrics are reviewed at the executive level as part of the DLA Executive Board's monthly Agency Performance Review. In addition, these metrics are elements in DLA's Performance Based Agreements (PBAs) with the Military Services and are jointly reviewed with them to collaboratively evaluate DLA's performance.

- **Perfect Order Fulfillment (POF)** is fully deployed within the Fusion Center and is used to identify performance issues and areas for improvement within the logistics pipeline. As such, POF is DLA's overarching reliability metric; it shows the percentage of orders that are "perfect" in the eyes of the customer – the warfighter. Performance indicators aligned to POF include: Timeliness (materiel and data are delivered to the correct place and on time), Quantity (correct item and quantity are delivered), Quality (materiel is delivered in the correct condition and packaging), and Documentation (correct shipping, compliance, and payment documents support the order). The POF metric continues to be refined in order to improve data fidelity, such as adding logic to address Inventory Management and Stock Positioning (IMSP) sites, and add new drill-down features to aid in analysis efforts. For example, customer-oriented weapon system data is currently displayed, along with location-based filters. DLA’s overall POF at the close of FY 2010 was more than 85.3%, above the established Management Objective of 83.2%. Timeliness continues to be the largest point of failure for POF, evidenced by the Timeliness component measured at slightly more than 86% for the close of FY 2010 (Documentation was greater than 99%, Quality was 99.9%, and Quantity was almost 98%). The latest revision to the Time Definite Delivery (TDD) standards will almost certainly have an impact on POF performance, though the exact magnitude will not be known until the new logic and standards are implemented into the metric calculation. Emphasis is currently being placed on the time taken up between physical receipt of an order and when the Material Receipt Acknowledgement (MRA) is submitted by the customer.

- **Attainment to Plan (ATP)** identifies the percentage of successful Purchase Requests (PR) and Stock Transport Orders (STO) (DLA-owned stock redistribution orders) generated through the supply planning process. In order to be successful, these actions must meet three criteria: quantity, quality, and timeliness. An increase in ATP demonstrates improved supply plan reliability, which lends itself to lower safety stock levels (smaller inventory investments). DLA FY 2010 ATP reflects a 2 point increase (44-46%) over FY 2009. DLA Clothing and Textile saw an 8 point increase, DLA Land and Maritime contributed a 6 point increase and DLA Aviation finished down 1 point. During FY 2010, management actions designed to improve ATP included, but were not limited to: development and testing of disciplined process control (DPC) tools at each supply chain, to provide visibility and execution management for procurement activities; and three supply chains (DLA Subsistence, DLA Medical and DLA Construction and Equipment) were removed from this metric and included elsewhere due to the incompatibility of their business processes with the ATP measurement.

- **Demand Planning Accuracy (DPA)** measures the degree of accuracy of a demand forecast compared to the actual demand. It is first calculated at the lowest level of detail, the Demand Forecasting Unit (DFU), comprised of a customer and an item of supply. The DFU can be rolled up to compute the DPA for the various and significantly larger customer groups (such as an Enterprise, a Demand Chain, etc.). DPA is measured in “lags” or forecasted ahead for set periods of time: Lag 0 (Current Month), Lag 1, 2, 3, 6, 12 & 24 months. Increased demand planning accuracy should result in better customer support and lower inventory investments and holding costs. To this end, DLA is using both top down and bottom up approaches. The DLA FY 2010 DPA was 34.4% which is below the Management Objective of 37.1%, but an improvement over the FY 2009 ending performance of 28.8%.

- **Absolute Percent Forecast Error (APFE)** measures the absolute value of the percent of error in the total forecast for the period and is weighted by the cost of the item. APFE is measured in lags and can be calculated at different levels; however, it is recommended for use as an aggregate measure since it provides insight into the absolute magnitude of issue.

  APFE is a top down evaluation as it assesses the overall goodness of the process and allows the establishment and comparison of benchmarks. DLA has established management objectives for APFE at the Enterprise and Demand Chain levels. The metric is calculated and reviewed monthly. The DLA FY 2010 APFE was 69.4% which is above the Management Objective of 63.0% and the FY 2009 ending performance of 67.9%. The DLA Demand Planning Improvement Team continues to research business decisions and planning processes, seeking methods to continue to improve the forecasting process and ensure it maintains the highest level of customer service possible.

- **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. Over fiscal year 2010, the Supply Chains reduced PRs in process from 205,361 at the end of October 2009 to 185,923 by the end of September 2010.

- **Administrative Lead Time (ALT)** is the total time between receipt of a customer order or planned requirement and contract award date. ALT is evaluated by comparing the actual lead time to the historical lead time of record. The actual ALT for FY2010 (up to Aug 2010) fluctuated between 15 and 17 days compared to the actual ALT fluctuation of between 19 and 26 days in FY 2009.

- **Production Lead Time (PLT)** is the total time between the receipt of award by the vendor and the receipt of 51% of the contract quantity. PLT is evaluated by comparing actual lead time to the historical lead time of record. The actual PLT for FY 2010 (up to August 2010) fluctuated between 30 and 33 days compared to the actual PLT fluctuation of between 41 and 50 days in FY 2009.

- **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 three metrics used were:

  - **SMS LTC Renewals/Lapses**: Measured the timeliness of planned renewals for expiring SMS Hardware NSNs on LTC. The DLA goal for FY 2009 was to renew 36,763 NSNs identified on expiring LTCs. DLA achieved 29,740 renewals with 7.72% unplanned lapses. The DLA goal for FY 2010 was to renew 114,977 NSNs identified on expiring LTCs. DLA achieved 71,408 renewals with 4.1% unplanned lapses.

- **LTC Obligation Rate**: Measured 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. Because of unplanned lapses, in FY 2009 DLA achieved a rate of 61.4% versus a 63.3% goal. DLA did not track LTC obligation goals in FY 2010.

- **SMS Growth:** Measured the increase in total Annual Demand Value (ADV) and Annual Demand Frequency (ADF) of SMS items on LTC. The Enterprise FY 2009 goals were to increase the ADV baseline (increase LTC Obligations) by slightly more than $605 million and increase the ADF baseline (the manual procurement workload avoided by placing items on LTC) by more than 1.4 million requisition lines. The enterprise increased the ADV by $3.95 billion and 5.75 million ADF through September 2009. For FY 2010, the goals were $335 million for ADV and 433 thousand in ADF. The enterprise increased the ADV by $2.8 billion and 4.6 million ADF through August 2010.

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 10 Goal**	**FY 10 Actual**
DLA Materiel Supply Chains	$1.01	$1.01
DLA Distribution -Processing	$25.46	$25.75
DLA Distribution – Covered Storage	$4.07	$3.76
Disposition Services – Per Line	$45.82	$31.72
DLA Disposition Services – Per Pound	$0.09	$0.06

The DLA Materiel Supply Chains unit cost was $1.01, which met the goal established for FY 2010. In this case, a unit cost that is greater than $1.00 reflects DLA's effort to support the warfighter by improving the availability of inventory. Unit cost is calculated by dividing operating costs (the sum of total obligations and credit) plus depreciation expense by gross sales.

The DLA Distribution processing unit cost was $25.75, which exceeded the goal established for FY 2010 due to one million fewer line items being processed than originally planned and higher processing costs. The unit cost is measured by processing costs relative to the number of line items processed. The Covered Storage unit cost measures the costs to provide covered storage to the cubic footage used. The actual covered storage unit cost was $3.76 or $0.31 lower than goal.

This was achieved by cost reduction efforts in the face of lower than planned workload, which was 2.9 million cubic feet below the plan of 70.0 million cubic feet.

The DLA Disposition Services Cost per Line unit cost was $31.72, which is was less than the goal established for FY 2010 due to cost reduction efforts and less line items processed than planned. Unit Cost is calculated by dividing the total cost of Receiving, Reutilization/Transfer/Donation and Useable Sales by the number of lines received and processed. The Cost per Pound unit cost was $0.06. Although pounds processed were over the FY 2010 goal, total costs were less than expected. Cost per pound is calculated by dividing the total costs for disposal of hazardous waste and non-hazardous item destruction by the number of pounds received and processed.

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 2010 CRR goal was 13.7%. The actual CRR was 10.7%, which was 3% lower than the FY 2010 President's Budget and is attributed to greater than expected Net Sales during the fiscal year and continued efforts to reduce operating costs.

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 was $5.90 better than planned. This variance can be attributed to a by lower composite product cost per barrel sold.

Unit Cost Results	FY 10 Goal	FY 10 Actual
Energy Unit Cost per barrel sold	$126.48	$120.58
Petroleum Product Cost per barrel	$105.04	$101.60

FINANCIAL RESULTS

The DLA evaluates financial results based on the solvency of the Agency's Cash position and the ability of meet intended Net Operating Results 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 positive operating result of $1.762 billion in FY 2010, subsequently the cash position also improved by $940 million. The primary driver for the gain in NOR was DLA

Energy ($1.6 billion) caused by a lower than planned average cost per barrel sold. Additional sales to the Material Supply Chain also contributed to the increase.

($ in billions)	NOR	Outlays
Energy	1.569	-0.659
Supply Chain Management	0.161	-0.296
Document Services	0.032	0.015
DLA	1.762	-0.940

DLA DISTRIBUTION

The DLA Distribution operates through its central distribution located in New Cumberland, PA, and 25 subordinate distribution centers located throughout the United States, Europe, Pacific, and Southwest Asia. The group's mission is to manage the receipt, storage, and issuance of DoD materiel. It delivers that materiel to customers collocated on a base or to far-off ships, posts, and repair facilities. The activity group uses contracts with commercial sources to transport items from DLA-owned warehouses directly to customers worldwide. Some distribution centers are highly automated facilities that were specifically designed to provide global support for general commodities; while others fill customer requirements on a regional basis or may provide global support for materiel that requires special equipment, facilities, or training. For example, one distribution center - with nine subordinate satellite operations - provides global support for all map distribution requirements. The distribution centers maintain the accountable inventory records and are responsible for preserving over $97 billion (at selling price) in DoD materiel, representing over 3.1 million items. In addition, DLA Distribution processed 21.2 million receipt and issue transactions during FY 2010 and their business services generated approximately $1.0 billion in revenue. By year's end this activity group employed more than 8,600 civilian, 136 active duty, and 211 reserve military personnel.

MISSION

The mission of DLA Distribution is to provide the full range of distribution services and information enabling a seamless, tailored worldwide DoD distribution network that delivers effective, efficient and innovative support to the Combatant Commands, the Military Services and other Agencies during peace and war. The distribution network ensures that America's Warfighters receive competitively priced and best value distribution services by providing "around the clock - around the world," world-class service. The DLA Distribution is also responsible for the DLA transportation management functions which support all shipments to first and second destination points.

STRATEGIC GOALS

The strategic goals established by DLA Distribution are consistent with those contained in the DLA Strategic Plan. These goals are achieved through a series of supporting strategies that will:

- Increase our reliability and value coupled with a faster response time to our customers by continuously improving and reengineering business practices;
- Provide best-value solutions to our customers by continuously evaluating our activities and implementing changes, as necessary, to ensure efficient and effective distribution operations; and,
- Reduce under-utilized infrastructure by eliminating unnecessary storage capacity.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Theater Consolidation and Shipping Points (TCSP) - Kuwait, Europe, and Korea: DLA operates three TCSPs that are the primary conduits for sustaining in-theater operations by rapidly consolidating or segregating shipments from multiple sources and then preparing and forwarding those shipments directly to the customer. The key features of the TCSPs include the capability to maintain visibility of the transportation control numbers and asset control. Collectively, these features allow for the movement of palletized materiel directly from the receiving dock to the shipping dock; where the ability to "cross-dock" eliminates the need for any storage or staging and facilitates an efficient transition from inbound to outbound operations. These efforts provide both effective and efficient support to the warfighters throughout Europe, Africa, Korea, and the Middle East. Thus far, this mission has reduced cost by 20% with a 40% reduction in redundant hub and spoke distribution systems. Based on the operational successes achieved by the TCSPs, a fourth TCSP is planned for DLA Distribution Sigonella (at Rota, Spain). The expansion of the TCSP services in Rota will further extend the enterprise and deliver supply chain excellence by providing real time capability to enhance warfighter support. This expansion also postures the DLA Distribution Sigonella to execute the mission as requirements emerge in U. S. Africa Command (USAFRICOM).

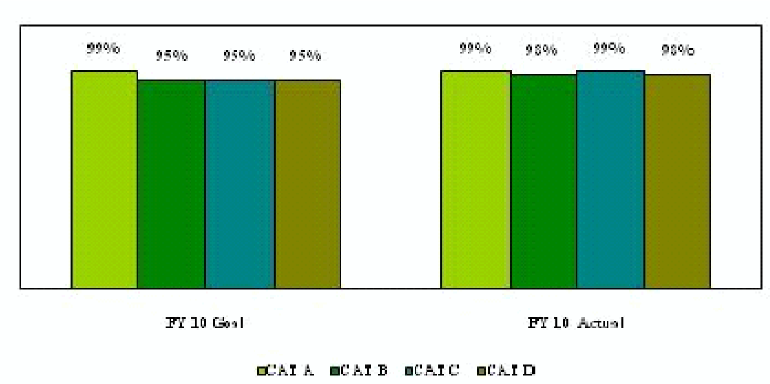
Foreign Disaster Support: Working with the Combatant Commanders' planning staffs, the development of a fully deployable Outside Continental United States (OCONUS) strategic distribution capability has been achieved and an initial operational capability is in place. This capability provides a) wholesale distribution depot support during contingency operations, b) wholesale support services and in-theater distribution expertise, and c) materiel visibility in a manner similar to existing fixed based forward stocking locations. Conceptually, this provides a combination of functions and capabilities of both a Theater Consolidation and Shipping Point and a fixed base forward stocking site to meet contingency needs and priorities. Those needs and priorities include wholesale support services, as well as materiel visibility.

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 2010 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 2010 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2010 DLA Distribution continued an aggressive schedule for the conduct of sample inventories for all categories of materiel at each of its Distribution Centers. DLA Distribution is also providing continuous training in the related distribution responsibilities and processes, as well.

Standardization Process & Compliance: Increased inspections to verify accurate documentation, to validate materiel marking, and preclude incidents of incorrect shipping (specifically sensitive, classified or items going outside the DoD network), were instituted in April 2008. As a result, the processing of High Priority Requisitions, New Procurement Receipts and Customer Returns each fell below the goals outlined below for FY 2010. DLA Distribution continuously monitors the impact of these inspection requirements and is taking steps to improve performance as opportunities present themselves such as the streamlining of standard operating procedures.

Performance Indicators	FY 10 Goal	FY 10 Actual
High Priority Requisitions (Shipped in)	1 Day	1.1 Days
Routine Requisitions (Shipped in)	3 Days	2.3 Days
New Procurement Receipts (Stored in)	1 Day	1.2 Days
Customer Returns (Stored in)	3 Days	12.5 Days
Denial Rate (Ordered Materiel Unavailable)	0.05%	.52%
Location Accuracy (Materiel locations verified)	99.5%	99.8%

FINANCIAL PERFORMANCE MEASURES

We measure 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.

Unit Cost Results	FY 10 Goal	FY 10 Actual
Unit Cost-Total Composite Processing Rate	$25.46	$25.75
Unit Cost-Covered Storage	$4.070	$3.76

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 greater than the goal by $0.29 primarily because one million fewer line items were actually processed than originally planned. Actual processing costs (excluding Second Destination Transportation) were $607.9 million or, $25.1 million, above plan as a result of unplanned depreciation costs.

The Unit Cost-Covered Storage measures the costs (direct, indirect, and applied overhead) to provide covered storage to the cubic footage used. The actual covered storage unit cost was $0.31 less than the goal. This was achieved by close management of costs ($269 million budgeted; actual costs were $252.7); the actual covered storage workload of 67.1 million cubic feet was less than the original plan by 2.9 million cubic feet.

DLA DISPOSITION SERVICES

The DLA Disposition Services operates through a central location headquartered in Battle Creek, MI, and 103 field sites throughout the world. The group's mission is to coordinate the reuse and disposal of excess and surplus DoD property. DLA Disposition sites receive, classify, segregate, demilitarize, account for, and dispose of excess materiel in accordance with all applicable laws and regulations. The reutilization of excess materiel by DoD customers reduces their need to purchase new materiel. In FY 2010, materiel with an acquisition value of $28 billion was turned in to and $1.7 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 $348 million in FY 2010. By year's end, this activity group employed 1,583 civilian, 99 active duty, and 185 reserve military personnel.

MISSION

The DLA Disposition Services supports the warfighter and protects the public by providing world-wide disposal management 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 Doctrine, Organization, Training, Materiel, Leadership, Personnel, and Facilities (DOTMLPF) Lines of Effort. Woven within the Lines of Effort are the plans for the various strategic disciplines, organizational objectives, strategies, and action plans that will achieve the vision. These disciplined plans include the Communication Plan, Culture Action Plan, Marketing Plan, and Talent Management Plan. Working in concert, the Lines of Operations and Lines of Effort integrate strategic efforts towards the fulfillment of the DLA Disposition Services vision. To ensure "Strategic doing," Offices of Primary and Collateral Responsibility (OPRs/OCRs) have been identified and execution planning is underway. The quarterly DLA Disposition Services Strategy Council will provide a venue for evaluation of the implementation of objectives and ensure progress toward the vision.

The DoD disposal business model calls for a balance between maximizing the use of property with an absolute requirement to prevent it from getting into the hands of unauthorized recipients. Accordingly, goals of DLA Disposition Services include: continue 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, even if it results in reduced revenues and increased costs. As such, DLA Disposition Services is committed to eliminating the release of potentially harmful property to the public.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Reduced Concurrent Procurement: Numerous actions were taken to reduce the frequency of DoD organizations procuring the same items they are disposing as excess but which are still in serviceable condition. Specific actions included:

- Conducted on-going education, training, and working group sessions with senior Military Service representatives to increase reutilization and determine how existing systems can interface with DLA's systems;

- Updated systems to allow DLA activities to automatically match DLA Disposition Services excess property assets against DLA inventory retention levels;

- Provided electronic notifications to past customers of available property;

- Featured scrolling photographs of high dollar and/or unique good condition items on the DLA Disposition Services Reutilization/Transfer/Donation (R/T/D) website; and

- Worked with training ranges so that the Military Services could reutilize property for live fire training.

This resulted in an increase of 14% in the number of line items of excess property reutilized/recouped from FY 2009 to FY 2010. Overall the monthly average reutilization for the best quality property increased from an average of 6,854 lines in FY 2009 to 7,877 lines in FY 2010.

Law Enforcement Support Office (LESO): The LESO policy and procedures provide program management for the transfer of excess DOD personal property to Law Enforcement Agencies, with a preference to counter-drug and counter terrorism agencies. On September 30, 2009 the LESO mission was transferred from HQ DLA to the DLA Disposition Services. Biannually, LESO is required to conduct a Program Compliance Review (PCR) of each participating state and territory. In FY 2010, LESO accomplished 23 Program Compliance Reviews and transferred nearly $170 million (Original Acquisition Value) of property to Law Enforcement Agencies. In FY2010, LESO also engaged its strategic partners (Office of the Secretary of Defense, Department of Justice, the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Federal Aviation Administration, and the Military Service Item Managers), hosted a national conference to train and assist its customer base, and presented at several of the most significant national law enforcement conferences. For example, the 117th International Association of Chiefs of Police Conference had more than 15,000 in attendance and the 70th National Sheriffs Association Conference had more than 8,000 in attendance. Other accomplishments in FY2010 include standardizing and improving the efficiency of the eligibility process, reducing the customer wait time for weapons, and increasing the accuracy of the Law Enforcement Equipment Database System (LEEDS). LEEDS is the repository for all customer information, customer property records, and the source for all LESO metrics. LESO had a historic transition and a record year in FY2010 in virtually every statistical category (requisitions, line items, acquisition value, property adjustments, and program compliance reviews) and stands ready for FY2011.

Safeguarding Controlled Property: Several offices were established and processes were implemented to enhance oversight and security:

- **Controlled Property Centers (CPCs)**: DLA Disposition Services has six sites performing CPC functions that will provide better accountability of items coming into the disposal accounting system. All batch lots and most Local Stock Number (LSN) and RCP property are sent to these sites to verify the property's eligibility for release outside of DoD. In FY 2010, the CPC functions were converted from contractor to Government performance. This conversion is intended to provide DLA Disposition Services enhanced controls in the management of the property and result in substantial savings. In FY 2010, the sites performing CPC functions received 5,385 batch lots, 372,217 lines of property were inspected and 101,259 lines of property were determined ineligible for release.

- **Controlled Property Verification Office (CPVO):** The Controlled Property Verification Office (CPVO) has refined the processes to review items destined for release to the public through a series of reviews including: 100% review of National Stock Numbers received (worldwide - weekly), 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 has achieved a 96% approval rate for Demil challenges and maintains timeliness in its review of delivery orders. In FY 2010, the CPVO reviewed 1.1M items and removed over 27K items from sale. The CPVO has developed a standardized methodology for performing reviews. The CPVO continually reviews the accuracy of assigned demilitarization codes at all stages of the review process and challenges the code assignment when warranted. To maintain the data integrity of the tool, the CPVO manages the Controlled Property Search Tools, i.e., Do Not Sell list, Safety Alert and Latent Defects (SALD), Decision Tables, F-14 list, and Nuclear Weapons Related Material searches.

- **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. Because these items were determined to be sensitive for reasons of national security, they are no longer eligible for transfer, donation, or sale. Since the implementation of the LTS in January 2009, DLA Disposition Services has reutilized $61,016,230 worth of property (approximately 3% of lines & 4% acquisition value) with no requisitions pending. LTS is filling up its rack and bulk storage space and is planning for additional infrastructure at DLA Land and Maritime. However, additional warehouse space (outside of DLA Land and Maritime) will be necessary in the DLA network if destruction authority is not authorized. Currently DLA Disposition Services is leveraging distribution storage to slow the fill rate of the LTS.

- **Scrap Venture (SV):** The Scrap Venture (SV) contract was modified to require the SV contractor to physically witness and attest to the mutilation process and complete the certificates of destruction. This reduces the risk of controlled property being available to the public. The modification will also allow DLA Disposition Services to conduct random physical inspections of the destruction process. Enhancements require the SV contractor to open and inspect all empty containers to prevent release of unauthorized property. Also, DLA Disposition Services has expanded oversight of SV operations to include review of SV sanitization of computer hard drives to ensure proper controls are maintained to preclude the release of PII and classified information.

- **Usable Property Sales Term Contract**: DLA Disposition Services reduced its usable sales contract exposure by awarding a contract that transfers complete ownership of property (in lieu of the Government retaining a downstream interest) and significantly limits contractor operations at DLA Disposition Services facilities. The sales contract has performance based incentives to prevent the release of controlled property. All property, prior to being sold, is checked to ensure it is safe for sale via a DLA Disposition Services only viewing tool. 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. Filters to catch controlled property prior to it being released to the general public are happening daily. These filters have returned F-14 items and prevented hundreds of miscoded demilitarized items from being released.

Safeguarding Excess/Surplus Property: The list of security related facility projects continues to grow yearly in both visibility and numbers. Each fiscal year DLA Disposition Services prioritizes and funds multiple projects and in FY 2010 DLA Disposition Services invested approximately $2 million in security-related facilities projects. There are 260 projects, estimated at more than $16 million, identified for funding by the end of FY 2014. In addition to the investment in facilities, significant changes were also implemented DLA Disposition Services-wide to tighten the walk-in procedures for property removal. Consequently, DLA Disposition Services ensures that authorization letters and potential screeners are independently verified before property is released and conducts weekly site inspections of contractor facilities where security risks exist.

Voluntary Protection Plan (VPP): Employees and management have a new sense of awareness on safety and looking out for each other and an increase of reporting mishaps withVPP. Through the VPP process the DLA Disposition Services has noticed an increase in management involvement, specifically in the quarterly self inspections along with more safety training being afforded in the Learning Management System (LMS) for employees and management. Ten field offices are currently in VPP along with their host. These DLA Disposition Services Sites are in various stages but our partnerships with DLA Distribution continue to grow as we participate in more of the meetings and committees.

Environmental Management System (EMS): The Disposition Services' EMS efforts target all facets of the disposition enterprise and have positively impacted each of its usable, scrap and hazardous property processes. More and more DLA Disposition Services is providing customized solutions that streamline processes while delivering optimal services. For example, the electronics turn in events is a great depiction of expanded collaboration and extending capabilities. The Navy appreciated the streamlined turn-in requirements for the excess electronics and the fact that one event diverted 24 tons of waste from the local landfill. The first bio-based (soy-based) fluids maintenance contract for Material Handling Equipment was implemented by the DLA Disposition Services; which is consistent with the warfighter support enhancement strategy to expand the support of alternative fuels and renewable energy solutions. Additionally, we've begun to "green" performance work statements for janitorial service contracts.

Continuous Process Improvement (CPI): CPI is a valuable tool in attainment of 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 leaders actively support our employees in applying CPI methods to their jobs and encourage a mindset of continuous improvement. Employees are encouraged to look for ways to make a positive impact on their work areas and our customers and achieve qualitative and quantitative improvements. DLA Disposition Services' continuous improvement approach is to weave an analytical, self-improving mindset throughout our culture, embrace both the formal and informal Continuous Process Improvement thought processes and use this opportunity to actively transform our workplace and our 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".

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

- Self Assessments (SA) – SAs, completed quarterly, essentially are a "look in the mirror" 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 – Effectiveness Reviews are an independent review of field sites' effectiveness and compliance with existing operational and environmental regulations and policies. Effectiveness Reviews 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 Effectiveness Reviews are provided minimal advance notice in order to provide DLA Disposition Services a better indicator of sustainment and compliance. Baseline Effectiveness Reviews are also conducted at sites that have new leadership. Effectiveness Review Teams are comprised of personnel from HQ DLA, HQ DLA Disposition Services and field sites. At the conclusion of each Effectiveness Review, a briefing of the results, impact and recommended corrective actions are provided to the DLA Disposition leadership. The out-brief provides visibility of significant issues to the DLA Disposition Services leadership early in the assessment process ensuring expeditious resolution. DLA Disposition Services continues to maintain an aggressive Effectiveness Review schedule and has conducted 38 Effectiveness Reviews in FY2010. Additionally, follow-up reviews are conducted at those sites that did not meet standards during the initial Effectiveness Review.

Military Service Customer Training: Recognizing a need for customer training, DLA Disposition Services has developed an online service course with Army Logistics University which covers an overview of DLA Disposition Services. This course covers pertinent aspects of disposal from turn in, reutilization, demilitarization, and hazardous material/waste to greening partnerships. Major Command Representatives provide training as guest speakers at Service level events (i.e., Army Logistics Management Seminars, Worldwide Logistics Workshops, Air Force Institute of Technology, Marine Corp Industrial Support Group), in their Service schoolhouses (Army logistics University, Joint Force Command Staff College, Air Force Communication Agency, Navy Supply School), and at Expositions/Symposiums (Association of the United States Army, Modern Day Marine West and South, Navy Fleet Maintenance and Modernization). In addition, DLA Disposition Services continues the process of reviewing and adding comments to Joint Pubs and Service Regulations, with the intent to identify the importance of disposal and how DLA Disposition Services fits into the Logistics Supply Chain and Life Cycle Management concepts. This effort affords better education to customers on the importance of planning overall disposal, turn-in procedures, reutilization and initiatives that DLA Disposition Services provides.

Warfighter Support: DLA Disposition Services provides multiple COCOM support and will partner with other agencies toward future operational build ups and draw-downs. By partnering across the COCOMs we will strive to create seamless end-to-end logistics.

- **Contingency Operations Support (CENTCOM):** DLA Disposition Services supports the warfighter in Iraq, Kuwait and Afghanistan by providing a Civilian and Military workforce to provide disposition services at Forward Operating Bases (FOBs). We are also partnering with DLA Distribution to staff a Command and Control Center (CCC) in Kandahar, providing one face to the customer. There are seven fully functional field sites located in the Central Command (CENTCOM) Area of Responsibility (AOR) and staffed with emergency essential personnel and military reservists. These locations receive and process excess and surplus usable property for reutilization, donation, or sale; perform and oversee demilitarization of military equipment items and the disposal of scrap; as well as, dispose of hazardous material/waste in an environmentally safe manner. As a vital part of supply chain management, DLA Disposition Services has and will continue to expand disposition services throughout the AOR to meet the needs and demands of its customer, the warfighter. The redistribution and disposition of property are viewed as critical aspects of a responsible drawdown of military operations in Iraq and the support required by a ramp-up of military operations in Afghanistan. During the course of the year, DLA Disposition Services expanded their capabilities to support the disposal needs and removal of 75 million pounds of scrap from 10 Forward Operating Bases in Iraq and 13 in Afghanistan. Collectively, DLA Disposition Services operations in the CENTCOM AOR yielded significant workload during FY 2010: Scrap receipts totaled 302 million pounds; scrap removals totaled 266 million pounds; and the warfighter reutilized more than 1.0 million pieces of property. In keeping with their mission to safeguard national security, DLA Disposition Services demilitarized 1.4 million items no longer needed for national defense.

- **Million Dollar Board:** The concept of the Million Dollar Board was developed at Camp Victory, Iraq to stimulate reutilization within a Contingency environment. The results and feedback were immediately obvious; all visitors checked the Million Dollar Board to identify Units or friends photographs. These inquiries quickly sparked into greater interest in reutilization and proved to be a solid training platform for other DLA Disposition Services' Support. The results and requests for the Million Dollar Board have now migrated to other field sites within theater all enjoying similar results and feedback from the warfighters. One of DLA Disposition Service's current Marketing Campaigns includes creating a Million Dollar Board tab on our external Website (www.DLA Disposition Services.dla.mil) to provide recognition to those Units meeting mission requirements while keeping an eye on fiscal stewardship.

Disposal Remediation Teams (DRTs): The DRTs, comprised of DLA joint reserve personnel, were instrumental in meeting the customer requirements in a very fluid operational environment. In FY 2010, DLA Disposition Services deployed 114 Navy, Army, and Air Force reservists to DRT locations spread throughout three countries: Iraq, Afghanistan, and Kuwait. These members served as Disposal Service Representatives and operated in an expeditionary manner by going to Forward Operating Bases to support the customer in their environment and location. The DRTs successfully: 1) laid the foundation for future DRT joint reserve force operations in the Central Command area of operational responsibility, 2) extended the DLA enterprise to the outermost tip of the spear, and 3) connected and integrated DLA Disposition Services' disposal operations with the customer to allow for responsive expedient support.

Enhanced DLA Disposition Services Intern Program: Faced with an aging workforce, DLA Disposition Services utilizes an Intern Training Program to ensure that the knowledge base is transferred to a trained employee prior to an individual's retirement. The program includes completion of mandatory formal training courses, on-the-job training, cross training, and rotational training within a 2-year period. In the past four years, DLA Disposition Services has added 35 DLA Interns to its Property Disposal, Environmental, and Contracting tracks (six in 2006, six in 2007, sixteen in 2008 and seven in 2009). An additional 17 interns are due to arrive in the coming months. Additionally, individuals who began their internships in 2009 were specifically recruited to fill Emergency Essential property disposal and environmental positions upon completion of the program. All new interns receive their first year of training at DLA Disposition Services headquarters in Battle Creek, MI. Their second/final year of training will be at their permanent placement location. Upon completion of the program, they will remain in place as DLA Disposition Services employees.

PROGRAM PERFORMANCE INDICATOR

Reutilization/Transfer/Donation (R/T/D) rate: This indicator represents the aggregate number of line items of the property reutilized, transferred, and donated expressed as a percentage of the total line items disposed. 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 or local government or to a non-profit organization. R/T/D dispositions, as a percentage of total 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 2010, DLA Disposition Services successfully reutilized, transferred, or donated over 213,000 line items of excess property for an R/T/D rate of about 18%.

- Operations Enduring Freedom and Iraqi Freedom Reutilization: Total reutilization supporting these two contingencies surpassed 27,000 line items with a value of $213 million.

Examples of the types of items issued in support of these operations include vehicles, tanks, trucks, and body armor.

- Computers for Learning: DLA Disposition Services is responsible for overseeing the transfer of computers to schools in support of the DoD's Computers for Learning Program. In FY 2010, 3,623 schools participated in the program, and computers worth over $16 million in acquisition value were transferred.

R/T/D will continue to increase as a percentage of total dispositions by:

- Marketing high dollar, good condition items through scrolling photographs on the R/T/D website. In FY 2010, DLA Disposition Services received 449 requisitions for property with an original acquisition value of $32.2 million.

- Pushing (to past customers) inventory alerts of the availability of same/similar items that they previously purchased. In FY 2009, DRMS received over 5,000 requisitions for this same type property with an original acquisition value of $51.6 million.

- Implementing changes that will improve the information on available property. This includes providing more photographs on the web and writing better descriptions of the property.

- Working closely with DLA and DoD supply centers to fill backorders and new purchase requests.

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 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); 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 10 Goal**	**FY 10 Actual**
Cost per line item	$45.82	$31.72
Cost per pound	$00.09	$00.06

The $14.10 reduction to the unit cost per line item for Receipts, RTD and Sales was driven by efforts to keep overall costs low across the enterprise. DLA Disposition Services processed 4.183 million line in FY 2010, which was .436 million less than expected. The total cost was $132.698 million, $78.906 million below goal.

The unit cost for Hazardous Waste Disposal and Recycling was also less than expected, at $.06 per pound versus $.09 per pound. Hazardous Waste was up 224.7 million pounds over the FY 2010 goal of 1.671 billion pounds, processing 1.896 billion pounds of scrap and hazardous waste. Although total pounds were up, the total costs for FY 2010 were down by $23.979 million at $123.068 million.

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group

Consolidated and Combined Financial Statements
As of and for the Fiscal Years Ended September 30, 2010 and 2009

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

DLA Supply Management

Consolidated Balance Sheet
As of September 30, 2010 and 2009
(In Thousands)

	2010	2009
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,418,361	$ 1,109,219
Other Assets (Note 6)	124,988	125,009
Total Intragovernmental Assets	1,543,349	1,234,228
Cash and Other Monetary Assets (Note 7)	6,300	10,010
Accounts Receivable, net (Note 5)	480,788	369,875
Inventory and Related Property, net (Note 9)	19,559,371	17,337,620
General Property, Plant and Equipment, net (Note 10)	1,790,660	1,983,198
Other Assets (Note 6)	38,118	23,401
TOTAL ASSETS	23,418,586	20,958,332
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	459,571	83,636
Other Liabilities (Note 15 & Note 16)	71,613	50,916
Total Intragovernmental Liabilities	531,184	134,552
Accounts Payable (Note 12)	2,855,629	3,110,135
Military Retirement and Other Federal Employment Benefits (Note 17)	224,126	223,000
Environmental and Disposal Liabilities (Note 14)	47,040	76,347
Other Liabilities (Note 15 & Note 16)	270,675	240,102
TOTAL LIABILITIES	3,928,654	3,784,136
NET POSITION		
Cumulative Results of Operations - Other Funds	19,489,932	17,174,196
TOTAL NET POSITION	19,489,932	17,174,196
TOTAL LIABILITIES AND NET POSITION	$ 23,418,586	$ 20,958,332

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

DLA Supply Management

Consolidated Statement of Net Cost
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 18)

	2010	2009
PROGRAM COSTS		
Gross Costs	$ 41,634,662	$ 43,700,946
Less: Earned Revenue	(43,364,888)	(39,233,315)
Net Program Costs	(1,730,226)	4,467,631
NET COST OF OPERATIONS	$ (1,730,226)	$ 4,467,631

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

DLA Supply Management

Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 19)

	2010	2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 17,174,196	$ 21,334,720
Beginning Balances, as adjusted		
Budgetary Financing Sources:		
Appropriations used	507,854	423,335
Transfers-in/out without reimbursement (+/-)	-	-
Other Financing Sources:		
Donations and forfeitures of property	-	-
Transfers-in/out without reimbursement (+/-)	(161,269)	(273,553)
Imputed financing from costs absorbed by others	198,924	157,325
Total Financing Sources	585,509	307,107
Net Cost of Operations (+/-)	(1,730,226)	4,467,631
Net Change	2,315,736	(4,160,524)
Cumulative Results of Operations	19,489,931	17,174,196
UNEXPENDED APROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	507,965	423,335
Appropriations transferred-in/out (+/-)	-	-
Other adjustments (rescissions, etc.) (+/-)	(111)	-
Appropriations used	(507,854)	(423,335)
Ending Balances	-	-
NET POSITION	$ 19,489,932	$ 17,174,196

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Supply Management

Combined Statement of Budgetary Resources
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Recoveries of prior year unpaid obligations	$ 1,225,963	$ 2,380,395
Budget Authority		
Appropriation	507,965	423,335
Contract authority	42,906,622	37,626,957
Spending authority from offsetting collections:		
Earned		
Collected	40,399,188	37,827,453
Change in receivables from Federal sources	(157,053)	(19,560)
Change in unfilled customer orders		
Advance received	(6,062)	(32,452)
Without advance from Federal sources	31,229	1,558
Subtotal	83,681,889	75,827,291
Nonexpenditure transfer, net, anticipated and actual	40,000	-
Permanently not available	(42,041,230)	113,604,290
Total Budgetary Resources	42,906,622	191,811,976
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	42,906,622	37,626,957
Unobligated balance not available	-	-
Total Status of Budgetary Resources	42,906,622	37,626,957
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	18,722,632	20,871,940
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(7,932,794)	(7,950,796)
Total unpaid obligated balance, net	10,789,838	12,921,144
Obligations incurred, net	42,906,622	37,626,957
Less: Gross outlays	(39,438,091)	(37,395,870)
Less: Recoveries of prior year unpaid obligations, actual	(1,225,962)	(2,380,395)
Change in uncollected customer payments from Federal sources (+/-)	125,823	18,002
Obligated balance, net end of period		
Unpaid obligations	20,965,200	18,752,632
Less: Uncollected customer payments from Federal sources (+/-)	(7,806,971)	(7,932,794)
Total unpaid obligated balance, net, end of period	13,158,229	10,819,838
Net Outlays:		
Gross outlays	39,438,091	37,395,870
Less: Offsetting collections	(40,393,124)	(37,795,001)
Net Outlays	$ (955,033)	$ (399,131)

The accompanying notes are an integral part of these statements.

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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 182 production facilities. During FY 2010, DLA Document Services earned more than $315 million in revenue and employed 906 civilians at year-end. Major customers were: Air Force (19.0%), Navy (26.6%), Army (24.3%), Defense Agencies (26.4%), and non-DoD customers (3.7%).

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. 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

Technical Order Distribute & Print System (TODPS) was developed as a solution for the United States Air Force Material Command's (AFMC's) requirement to improve Technical Order (TO) distribution. Technical orders necessary for effective operation and maintenance support are now reaching the customer in 72 hours or less compared to previous timelines of 3 to 6 weeks. This effort is one of several key projects that is at the core of DLA Document Services' mission direction to transition the DoD toward on-demand and on-line document products and services. Based on the success of the TODPS, the Air Force issued a policy for all new/revised TO's to be initially distributed using the DLA Document Services beginning in FY 2010. The Air Force will have substantial annual savings based on the ability to close three very large TO warehouses. Additionally, the Air Force will realize savings from the elimination of the requirement to print excess TO copies for stock/distribution.

Indefinite Delivery Indefinite Quantity (IDIQ) Contract was awarded for US Department of Defense customers throughout the Republic of South Korea. This contract provides for an indefinite quantity of supplies and/or services for multifunction devices that scan, copy, fax and print. The new IDIQ replaced approximately 250 individual contracts and is expected to significantly reduce administrative time and expense. DLA Document Services plans to continue this trend and pursue other long-term contract vehicles in the future.

Equipment Management Solutions Assessments (EMSAs) performed by DLA Document Services, are studies of existing office document creation/duplication environments within an organization. Study results include recommendations for optimizing the local environment. Organizational savings result from the reduction in the number of desktop and stand-alone devices with lower cost multifunction devices, implementation of routing and utilization rules for color, and standardization. By eliminating these separate devices, the organization maintains or increases its capability while saving the costs of equipment, maintenance and consumables. Implementation of EMS Assessment recommendations can reduce office document costs by 10 to 40 percent. As an example in FY 2010, DLA Document Services conducted a comprehensive EMS Assessment for the Fleet Readiness Center Southwest (FRCSW), located in San Diego, California. A detailed cost analysis was conducted of the centers' more than 400 separate printers, scanners and stand alone copiers within 99 locations in the San Diego and surrounding areas. The analysis resulted in a recommendation for right-sizing the center's equipment complement and increasing use of multifunction devices. The DLA Document Services assessment detailed an estimated annual savings of $450,000 for FRCSW through the consolidation of its current Navy Marine Corps Intranet networked equipment by ordering strategically placed multifunction devices.

United States Air Force Europe (USAFE) Acquisition Policy for Printing and Imaging Devices dated June 29, 2010 mandated DLA Document Services as the sole source for the acquisition of printing and imaging devices for the USAFE non-classified network. Use of DLA Document Services will allow USAFE to realize the advantages of a consolidated print environment, decrease costs and fully leverage multi-functional device capabilities.

PROGRAM PERFORMANCE INDICATORS

Quality of Finished Product: 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 a quality of finished product rating of 97% for FY 2010, exceeding its goal of 95%.

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 commercial entity to determine an overall customer satisfaction rating. DLA Document Services achieved a customer satisfaction rating of 93% for FY 2010, exceeding its goal of 90%.

On-Time Delivery (In-house Production): This performance metric measures the timeliness of customer order completion. The performance metric is calculated by dividing the total number of orders filled on time by a DLA Document Services owned and operated production facility (in-house) by the total number of orders filled by these facilities. DLA Document Services achieved an on-time delivery rate of 98%, meeting its goal of 98%.

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 10 Goal	FY 10 Actual
Unit Cost per In-House Production Unit	0.0652	0.0472

DLA Document Services produced 5% more in-house units than planned (2,571 million estimated actual versus 2,456 million planned). In addition, estimated actual in-house costs were almost 27% lower than planned ($121.5 million estimated actual versus $160.2 million planned). DLA Document Services incurred significantly less cost, while producing more units. As a result, DLA Document Services was able to better its unit cost goal by 24%.

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 $31.7 million.

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Defense Logistics Agency
Working Capital Fund

DLA Document Services Activity Group

Consolidated and Combined Financial Statements
As of and for the Fiscal Years Ended September 30, 2010 and 2009

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DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Document Services

Consolidated Balance Sheet
As of September 30, 2010 and 2009
(In Thousands)

	2010	2009
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 63,302	$ 45,563
Total Intragovernmental Assets	63,302	45,563
Cash and Other Monetary Assets (Note 7)	-	-
Accounts Receivable, Net (Note 5)	525	1,320
Inventory and Related Property, Net (Note 9)	2,144	2,766
General Property, Plant, and Equipment, Net (Note 10)	15,998	10,060
Other Assets (Note 6)	4	4
TOTAL ASSETS	81,973	59,713
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	7,285	11,915
Other Liabilities (Notes 15 & 16)	2,974	1,921
Total Intragovernmental Liabilities	10,259	13,836
Accounts Payable (Note 12)	52,705	19,523
Military Retirement and Other Federal Employment Benefits (Note 17)	10,901	9,820
Other Liabilities (Notes 15 & 16)	8,135	6,580
TOTAL LIABILITIES	82,000	49,759
NET POSITION		
Cumulative Results of Operations – Other Funds	(27)	9,954
TOTAL NET POSITION	(27)	9,954
TOTAL LIABILITIES AND NET POSITION	$ 81,973	$ 59,713

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Document Services

Consolidated Statement of Net Cost
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 18)

	2010	2009
PROGRAM COSTS		
Gross Costs	$ 347,137	$ 348,572
Less: Earned Revenue	(315,475)	(336,871)
Net Program Costs	31,662	11,701
NET COST OF OPERATIONS	$ 31,662	$ 11,701

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Document Services

Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 19)

	2010	2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 9,954	$ (40,281)
Beginning Balances, as adjusted	9,954	(40,281)
Budgetary Financing Sources:		
Transfers-in/out without reimbursement (+/-)	-	-
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	15,209	56,636
Imputed financing from costs absorbed by others	6,473	5,300
Total Financing Sources	21,682	61,936
Net Cost of Operations (+/-)	31,662	11,701
Net Change	(9,980)	50,235
Cumulative Results of Operations	$ (27)	$ 9,954

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Document Services

Combined Statement of Budgetary Resources
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ (7,305)	$ 22,761
Recoveries of prior year unpaid obligations	10,812	2,084
Budget authority		
Contract authority	2,478	5,515
Spending authority from offsetting collections:		
Earned		
Collected	303,202	295,717
Change in receivables from Federal sources	15,728	40,819
Change in unfilled customer orders		
Advance received	(195)	292
Without advance from Federal sources	895	16,399
Subtotal	322,108	358,742
Nonexpenditure transfers, net, anticipated and actual	-	-
Permanently not available	(4,720)	(3,477)
Total Budgetary Resources	$ 320,895	$ 380,110

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA Document Services

Combined Statement of Budgetary Resources (Continued)
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 361,997	$ 387,415
Subtotal	361,997	387,415
Unobligated balance:		
Apportioned	-	-
Exempt from apportionment	(41,102)	(7,305)
Subtotal	(41,102)	(7,305)
Total Status of Budgetary Resources	320,895	380,110
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	124,993	92,306
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(86,292)	(29,074)
Total unpaid obligated balance, net	38,701	63,232
Obligations incurred, net	361,997	387,415
Less: Gross outlays	318,217	(352,644)
Less: Recoveries of prior year obligations, actual	(10,812)	(2,084)
Change in uncollected customer payments from Federal sources (+/-)	(16,623)	(57,218)
Obligated balance, net, end of period		
Unpaid obligations	157,962	124,993
Less: Uncollected customer payments from Federal sources (+/-)	(102,915)	(86,292)
Total unpaid obligated balance, net, end of period	55,047	38,701
Net Outlays:		
Gross outlays	318,217	352,644
Less: Offsetting collections	(303,008)	(296,009)
Net Outlays	$ 15,209	$ 56,635

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
General Fund

Consolidated and Combined Financial Statements
As of and for the Fiscal Years Ended September 30, 2010 and 2009

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Consolidated Balance Sheet
As of September 30, 2010 and 2009
(In Thousands)

	2010	2009
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 975,886	$ 974,545
Accounts Receivable (Note 5)	17,691	18,497
Total Intragovernmental Assets	993,577	993,042
Accounts Receivable, Net (Note 5)	276	1
General Property, Plant, and Equipment, Net (Note 10)	419,601	320,403
Other Assets (Note 6)	3,515	1,694
TOTAL ASSETS	1,416,969	1,315,140
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	10,065	5,191
Other Liabilities (Note 15 & 16)	9,165	6,959
Total Intragovernmental Liabilities	19,230	12,150
Accounts Payable (Note 12)	39,727	21,083
Military Retirement and Other Federal Employment Benefits (Note 17)	6,342	7,861
Environmental and Disposal Liabilities (Note 14)	177,513	214,659
Other Liabilities (Note 15 & 16)	4,786	4,122
TOTAL LIABILITIES	247,598	259,875
NET POSITION		
Unexpended Appropriations – Other Funds	920,873	962,801
Cumulative Results of Operations – Other Funds	248,498	92,464
TOTAL NET POSITION	1,169,371	1,055,265
TOTAL LIABILITIES AND NET POSITION	$ 1,416,969	$ 1,315,140

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, 2010 and 2009
(In Thousands) (See Note 18)

		2010		2009
PROGRAM COSTS				
Gross Costs	$	642,456	$	557,912
Less: Earned Revenue		(68,246)		(52,711)
Net Program Costs		574,210		505,201
NET COST OF OPERATIONS	$	574,210	$	505,201

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, 2010 and 2009
(In Thousands) (See Note 19)

	2010	2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 92,464	$ 6,244
Budgetary Financing Sources:		
Appropriations used	820,421	655,785
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(93,480)	(66,406)
Imputed financing from costs absorbed by others	3,304	2,236
Other (+/-)	(1)	(194)
Total Financing Sources	730,244	591,421
Net Cost of Operations (+/-)	574,210	505,201
Net Change	156,034	86,220
Cumulative Results of Operations	248,498	92,464
UNEXPENDED APPROPRIATIONS		
Beginning Balances	962,801	733,951
Budgetary Financing Sources:		
Appropriations received	832,504	868,902
Appropriations transferred-in/out (+/-)	(8,406)	29,159
Other adjustments (rescissions, etc.) (+/-)	(45,605)	(13,426)
Appropriations used	(820,421)	655,785
Total Financing Sources	(41,928)	228,850
UNEXPENDED APPROPRIATIONS	920,873	962,801
NET POSITION	$ 1,169,371	$ 1,055,265

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, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 211,894	$ 158,461
Recoveries of prior year unpaid obligations	61,692	31,050
Budget authority		
Appropriation	832,504	868,902
Spending authority from offsetting collections:		
Earned		
Collected	66,632	43,884
Change in receivables from Federal sources	(636)	6,196
Change in unfilled customer orders		
Without advance from Federal sources	32	111
Subtotal	898,532	919,093
Nonexpenditure transfers, net, anticipated and actual	(8,406)	29,159
Permanently not available	(45,604)	(13,425)
Total Budgetary Resources	$ 1,118,108	$ 1,124,338

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Combined Statement of Budgetary Resources (Continued)
For the Years Ended September 30, 2010 and 2009
(In Thousands) (See Note 20)

	2010	2009
Status Of Budgetary Resources:		
Obligations incurred:		
Direct	$ 820,050	$ 862,246
Reimbursable	66,054	50,199
Subtotal	886,104	912,445
Unobligated balance:		
Apportioned	224,924	173,732
Subtotal	224,924	173,732
Unobligated balance not available	7,080	38,161
Total Status of Budgetary Resources	1,118,108	1,124,338
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	785,631	616,086
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(22,978)	(16,671)
Total unpaid obligated balance, net	762,653	599,415
Obligations incurred, net	886,104	912,445
Less: Gross outlays	(843,787)	(711,851)
Less: Recoveries of prior year unpaid obligations, actual	(61,693)	(31,049)
Change in uncollected customer payments from Federal sources (+/-)	606	(6,307)
Obligated balance, net, end of period		
Unpaid obligations	766,255	785,631
Less: Uncollected customer payments from Federal sources (+/-)	(22,372)	(22,978)
Total unpaid obligated balance, net, end of period	743,883	762,653
Net Outlays:		
Gross outlays	843,787	711,851
Less: Offsetting collections	(66,634)	(43,884)
Net Outlays	$ 777,153	$ 667,967

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, 2010 and 2009

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 Defense Logistics Agency (DLA) General Fund (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 in accordance with and to the extent possible, U.S. generally accepted accounting principle (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 discernable.

The DLA is unable to fully implement all elements of USGAAP and 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 in accordance with 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 nonDoD customers. The DLA activity groups executing these funds include Supply Chain Management (SCM), DLA Energy, and DLA Document Services. The SCM is comprised of: DLA Land and Maritime, DLA Aviation, DLA Troop Support, DLA Distribution, and DLA Disposition Services. DLA also manages the DLA Strategic Materials Transaction Fund that is not included in these financial statements as they are a separate reporting entity for financial statement purposes.

The DLA continues to leverage its operational efficiencies to implement the Base Realignment and Closure 2005 Supply and Storage recommendations. The DLA has engaged in the following transformational initiatives with the Military Departments: (1) Commodity Management Privatization to privatize the supply and storage of selected commodities (i.e., tires, compressed gases and petroleum, oil, lubricant packages); (2) Depot - Level Reparable (Procurement Management/Consumable Item Transfer) to realign procurement management of repair parts from the Military Services to DLA at selected sites and to transfer supply management of selected consumable items to DLA; and (3) Supply, Storage and Distribution Reconfiguration to realign supply, storage and distribution functions through consolidation and management reconfiguration at 13 sites.

C. Appropriations and Funds

The DLA GF receives appropriations and funds as general funds. The DLA uses these appropriations and funds to execute its missions and subsequently report on resource usage.

The DLA GF is used for financial transactions funded by congressional appropriations including personnel, operation and maintenance, research and development, procurement, and military construction.

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at http://www.defenselink.mil/recovery.

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 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. In addition, it supports the American Recovery and Reinvestment Act (Public Law 111-5) for Energy Conservation Investment Program (ECIP) projects. For FY 2010, the RDT&E appropriation reported an over obligation of $5,637.61at appropriation limit 97 97 2009/2010 0400.5149 for funding issued to Defense Microelectronics Activity. A preliminary review is underway to gather basic facts and determine whether an Antideficiency Act Violation has occurred or if this is an administrative error.

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 suballots MILCON funds to certain entities such as the Air Force, Navy and U.S. Army Corps of Engineers (USACE) for the execution of specific authorized programs. Also, it supports the American Recovery and Reinvestment Act (Public Law 111-5) for ECIP projects.

The Family Housing appropriation finances the routine operations, maintenance, and construction improvements of 170 military family housing units. Routine operation and maintenance includes management costs, utility costs and cyclical maintenance such as painting and renovations.

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 payroll expenses, 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 DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" and Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provide guidance for reporting and reconciling intragovernmental balances. While 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

Not Applicable to 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 the 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. Foreign Currency

Not Applicable to 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 in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA GF.

M. Inventories and Related Property

Not Applicable to DLA GF.

N. Investments in U.S. Treasury Securities

Not Applicable to DLA GF.

O. General Property, Plant and Equipment

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

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 in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The DLA has implemented this policy.

Q. Leases

Not Applicable to 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.

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 advance 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 and annual leave for civilians. Sick leave and travel compensatory time are expensed as taken. The liabilities are based on current pay rates. 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 Bases

Not Applicable to 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 are evidenced by collaborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

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

X. Significant Events

Not Applicable to DLA GF.

Y. Fiduciary Activities

Not Applicable to DLA GF.

Note 2. Nonentity Assets

As of September 30	2010	2009
(Amounts in thousands)		
Intragovernmental Assets		
Fund Balance with Treasury	$ 1	$
Accounts Receivable	145	
Total Intragovernmental Assets	$ 146	$
Total Nonentity Assets	$ 146	$
Total Entity Assets	$ 1,416,823	$ 1,315,140
Total Assets	$ 1,416,969	$ 1,315,140

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

Total Nonentity Assets for DLA General Fund are refund receivables for the Operations and Maintenance Appropriation.

Note 3. Fund Balance with Treasury

As of September 30		2010		2009
(Amounts in thousands)				
Fund Balances				
Appropriated Funds	$	975,886	$	974,545
Total Fund Balances	$	975,886	$	974,545
Fund Balances Per Treasury Versus Agency				
Fund Balance per Treasury	$		$	
Fund Balance per		975,886		974,545
Reconciling Amount	$	(975,886)	$	(974,545)

The DLA shows a $975.9 million reconciling net difference with 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 Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount.

Status of Fund Balance with Treasury

As of September 30		2010		2009
(Amounts in thousands)				
Unobligated Balance				
Available	$	224,925	$	173,733
B. Unavailable		7,080		38,159
Obligated Balance not yet Disbursed	$	766,254	$	785,631
Nonbudgetary FBWT	$		$	
NonFBWT Budgetary Accounts	$	(22,373)	$	(22,978)
Total	$	975,886	$	974,545

The Status of Fund Balance with Treasury reflects the budgetary resources to support FBWT and is 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.

NonFBWT Budgetary Accounts reduces the Status of FBWT. DLA's NonFBWT Budgetary Accounts consists of unfilled customer orders without advance and accounts receivable.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. There are no restrictions on DLA's unobligated balances.

Note 4. Investments and Related Issues

Not Applicable to DLA GF.

Note 5. Accounts Receivable

As of September 30	2010		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 17,691		$ 17,691
Nonfederal Receivables (From the Public)	$ 276	$	$ 276
Total Accounts Receivable	$ 17,967	$ 0	$ 17,967

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 18,497		$ 18,497
Nonfederal Receivables (From the Public)	$ 1	$	$ 1
Total Accounts Receivable	$ 18,498	$	$ 18,498

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 in accordance with the Intragovernmental Business Rules.

Note 6. Other Assets

As of September 30	2010	2009
(Amounts in thousands)		
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$	$
Advances and Prepayments	3,515	1,694
Other Assets (With the Public)		
Total Nonfederal Other Assets	$ 3,515	$ 1,694
Total Other Assets	$ 3,515	$ 1,694

Note 7. Cash and Other Monetary Assets

No Applicable to DLA GF.

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA GF.

Note 9. Inventory and Related Property

Not Applicable to DLA GF.

Note 10. General PP&E, Net

As of September 30	2010				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress	N/A	N/A	$ 419,601	$ N/A	$ 419,601
Total General PP&E			$ 419,601	$ 0	$ 419,601

As of September 30	2009				
	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	$ 320,403	$ N/A	$ 320,403
Total General PP&E			$ 320,403	$ 0	$ 320,403

Legend for Valuation Methods:
N/A = Not Applicable

The DLA General Fund (GF) General Property, Plant and Equipment (General PP&E) consists of only construction in progress (CIP). The CIP is funded by the Military Construction and Family Housing appropriations. 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 construction is completed and the constructed asset is available for use, the asset is transferred from the DLA GF CIP account to the appropriate Service's General PP&E account.

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 they are managing and are responsible for facilitating the transfer of completed assets to the applicable real property account.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2010		2009
(Amounts in thousands)				
Intragovernmental Liabilities				
Other		7,299		6,670
Total Intragovernmental Liabilities	$	7,299	$	6,670
Nonfederal Liabilities				
Accounts Payable	$	6,399	$	5,507
Military Retirement and Other Federal Employment Benefits		6,342		7,861
Environmental Liabilities		141,626		184,171
Other Liabilities		3,423		3,058
Total Nonfederal Liabilities	$	157,790	$	200,597
Total Liabilities Not Covered by Budgetary Resources	$	165,089	$	207,267
Total Liabilities Covered by Budgetary Resources	$	82,509	$	52,608
Total Liabilities	$	247,598	$	259,875

Liabilities Not Covered by Budgetary Resources include 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. Accounts Payable consists of DLA' cancelled appropriations.

Composition of Other Lines:

Intragovernmental Liabilities Other consists of Other Unfunded Employment Related Liability.

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 Federal Employees Compensation Act (FECA) benefits for $6.3 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	2010		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 10,065	$	$ 10,065
Nonfederal Payables (to the Public)	39,727		39,727
Total	$ 49,792	$	$ 49,792

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 5,191	$	$ 5,191
Nonfederal Payables (to the Public)	21,083		21,083
Total	$ 26,274	$	$ 26,274

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

Note 13. Debt

Not Applicable to DLA GF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2010	2009
(Amounts in thousands)		
Environmental Liabilities—Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 138,012	$ 158,924
Environmental Corrective Action	14,396	20,213
Environmental Closure Requirements	2,639	2,801
Installation Restoration Program	22,466	32,721
Total Environmental Liabilities	$ 177,513	$ 214,659

The DLA Environmental Liabilities (EL) are derived from current and out-year Remedial Action Cost Engineering & Requirements (RACER) estimates generated for 35 Defense Environmental Restoration Program (DERP), 170 Non-Base Realignment and Closure (Non-BRAC)sites, and 28 Base Realignment and Closure (BRAC) sites. In August 2009, DLA executed the RACER model to generate the fiscal year (FY) 2010 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

The DLA has developed a plan for collecting and reporting EL for 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 cleanup 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 follow the Comprehensive Environmental Response, Compensation, and Liability Act; Resource Conservation and Recovery Act; and the Superfund Amendments and Reauthorization Act to clean up contamination on installations managed 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 has cleanup requirements for DERP sites at Active Installations, BRAC Installations, and sites at Active Installations that are not covered by DERP. All clean-up 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 model, an independently validated model, to estimate environmental costs. The RACER Steering Committee validates the model in accordance with Department of Defense (DoD) Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

The DLA provides RACER estimated Non-BRAC costs associated with General Property, Plant, and Equipment (PP&E). Initial data on the environmental cost linked to General PP&E was gathered during FY 2006 and is the basis for the development, implementation, and reporting. In accordance with the DoD FMR Volume 4, Chapter 13, the PP&E removal and site restoration costs will be amortized over the expected life of the asset.

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

The DLA had changes in estimates for FY 2010 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA's EL are expected to fluctuate due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2010 CTC has incorporated the DoD inflation factors into the BRAC, DERP and Non-BRAC closure estimates. The latest version of RACER (2009 version 10.2) was used to rebaseline estimates.

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

The environmental liabilities for the DLA are based on 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.

Although DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible, they are generally considered accurate at +/- 20%. This percentage is supported by a 2004 RACER validation. RACER is currently undergoing another validation that will provide updated supporting statistical analysis. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

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

Note 15. Other Liabilities

As of September 30	2010		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
. FECA Reimbursement to the Department of Labor	1,436		1,436
. Custodial Liabilities	145		145
. Employer Contribution and Payroll Taxes Payable	285		285
. Other Liabilities	7,299		7,299
. Total Intragovernmental Other Liabilities	$ 9,165	$	$ 9,165
(Amounts in thousands)			
Nonfederal			
. Accrued Funded Payroll and Benefits	$ 886	$	$ 886
. Accrued Unfunded Annual Leave	3,423		3,423

. Capital Lease Liability						
l. Contract Holdbacks		477				477
. Total Nonfederal Other Liabilities	$	4,786	$		$	4,786
. **Total Other Liabilities**	$	13,951	$		$	13,951

As of September 30	2009					
	Current Liability		Noncurrent Liability		Total	
(Amounts in thousands)						
Intragovernmental						
. FECA Reimbursement to the Department of Labor				810		810
. Employer Contribution and Payroll Taxes Payable		289				289
Other Liabilities		5,860				5,860
Total Intragovernmental Other Liabilities	$	6,149	$	810	$	6,959
(Amounts in thousands)						
Nonfederal						
. Accrued Funded Payroll and Benefits	$	588	$		$	588
. Accrued Unfunded Annual Leave		3,058				3,058
. Capital Lease Liability						
. Contract Holdbacks		476				476
. Total Nonfederal Other Liabilities	$	4,122	$		$	4,122
Total Other Liabilities	$	10,271	$	810	$	11,081

Composition of Other Lines

Intragovernmental Other Liabilities consists of amounts for unfunded unemployment compensation not covered by the current year's budget authority.

Note 16. Commitments and Contingencies

DLA is not aware of any contingent liabilities for legal actions for General Fund.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2010		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 6,342	$	$ 6,342
Total Other Benefits	$ 6,342	$	$ 6,342
Total Military Retirement and Other Federal Employment Benefits:	$ 6,342	$	$ 6,342

As of September 30	2009		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 7,861	$	$ 7,861
Total Other Benefits	$ 7,861	$	$ 7,861
Total Military Retirement and Other Federal Employment Benefits:	$ 7,861	$	$ 7,861

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the Department of Labor’s (DOL) Employment Standards Administration 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 2010 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:

3.653% in Year 1

4.300% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2010 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

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

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2010 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2010 projection to the average pattern for the projections of the most recent three years.

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	2010	2009
(Amounts in thousands)		
Intragovernmental Costs	$ 121,042	$ 135,729
Public Costs	521,414	422,183
Total Costs	$ 642,456	$ 557,912
. Intragovernmental Earned Revenue	$ (64,901)	$ (46,976)
. Public Earned Revenue	(3,345)	(5,735)
Total Earned Revenue	$ (68,246)	$ (52,711)
Net Cost of Operations	$ 574,210	$ 505,201

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

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

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

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.

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.

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

No Disclosures for DLA GF.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2010	2009
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 723,398	$ 765,205
Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Apportionment Categories for Obligations

The DLA had Apportionment Category A-Direct and Reimbursable Obligations Incurred and Category B-Direct Obligations Incurred. Neither Category A or Category B had Obligations Exempt from Apportionment. The table below summarizes the apportionment categories.

($ millions)	Category A	Category B	Totals
Direct Obligations Incurred	589.7	230.3	820.0
Reimbursable Obligations Incurred	66.1		66.1
Obligations Exempt From Apportionment			
Total	655.8	230.3	886.1

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30		2010		2009
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	886,104	$	912,445
Less: Spending authority from offsetting collections and recoveries (-)		(127,720)		(81,241)
Obligations net of offsetting collections and recoveries	$	758,384	$	831,204
Net obligations	$	758,384	$	831,204
Transfers in/out without reimbursement (+/-)		(93,480)		(66,406)
Imputed financing from costs absorbed by others		3,304		2,236
Other (+/-)		(1)		(194)
Net other resources used to finance activities	$	(90,177)	$	(64,364)
Total resources used to finance activities	$	668,207	$	766,840
Resources Used to Finance Items not Part of the Net Cost of Operations:				
. Undelivered Orders (-)	$	41,805	$	(179,613)
Unfilled Customer Orders		32		111
Resources that fund expenses recognized in prior Periods (-)		(38,667)		(42,757)
16b. Other (+/-)		93,481		66,600
Total resources used to finance items not part of the Net Cost of Operations	$	96,651	$	(155,659)
Total resources used to finance the Net Cost of Operations	$	764,858	$	611,181

As of September 30		2010		2009
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in annual leave liability	$	365	$	476
Other (+/-)		1,668		3,193
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	2,033	$	3,669
Revaluation of assets or liabilities (+/-)		(2,232)		(457)
Other (+/-)				
27d. Other		(190,449)		(109,192)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	(192,681)	$	(109,649)

Total components of Net Cost of Operations That will not Require or Generate Resources in the current period	$	(190,648)	$	(105,980)
Net Cost of Operations	$	574,210	$	505,201

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 operation 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 $2.7 million to bring it into balance with the Statement of Net Cost, (SoNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems, to Other Components Not Requiring of Generating Resources.

The following note schedule lines are presented as combined instead of consolidated due to intra-agency 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 Activities: Other consists of a gain from various transactions with no budgetary impact.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations: Other consists of financial sources transfers out of Military Construction.

Components Not Requiring or Generating Resources in future period: Other consists primarily of future funded expenses for annual leave.

Components Not Requiring or Generating Resources: Other consists primarily of cost capitalization offset for military construction.

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable to DLA GF.

Note 23. Earmarked Funds

Not Applicable to DLA GF.

Note 24. Fiduciary Activities

Not Applicable to DLA GF.

Note 25. Other Disclosures

No required disclosures.

Note 26. Restatements

Not Applicable to DLA GF.

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