Defense Logistics Agency

Working Capital Fund

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Defense Logistics Agency

Working Capital Fund

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MESSAGE FROM THE DIRECTOR

I am pleased to present the Fiscal Year 1997 Annual Financial Statements for the Defense Logistics Agency - Defense Working Capital Fund (DWCF), prepared in accordance with the Chief Financial Officers Act of 1990 (the Act).

The Act, along with the creation of DWCF, established accounting and funding principles which necessitated a shift from traditional fund management (i.e., obligations and outlays) to a more business-oriented approach.

The requirements of the Act, to produce annual financial statements, provide an opportunity for the Defense Logistics Agency (DLA) to improve financial management by allowing us to:

- examine financial systems and operations;
- provide a systematic method to evaluate costs and identify areas for further efficiencies; and
- establish a link between financial data and program operations data.

These financial statements will help in the evaluation of the effectiveness of our systems and operations. They are, therefore, an integral part of my strategy for improving financial management processes. This report should also be beneficial to our many diverse customers, as it brings together in one place an overview of the Agency's activities, a discussion and analysis of key performance indicators, financial statements and additional supplemental information.

During Fiscal Year 1997, DLA continued to shift its operations to a more commercial business-like approach emphasizing increased customer satisfaction, quality improvement and the use of modern technologies to reduce cost to the customer, while at the same time focusing on our core mission of providing acquisition and focused logistics support to America's Armed Forces in peace and war. Some significant accomplishments include:

- Receipt of 36 Hammer Awards, in recognition of teams making superior contributions to the reinvention of one or more aspects of government, as envisioned in the principles of the National Performance Review (NPR).
- An increased level of customer satisfaction, as evidenced by the results of the latest Customer Satisfaction Survey. Approximately 79 percent of DLA customers who responded described themselves as "satisfied" or "very

satisfied" with DLA's products and services. This represents an 18.7 percent improvement over the previous survey and 13.7 percent above the Fiscal Year 1997 goal.

DLA also made significant progress to correct weaknesses observed in previous financial reports. Some accomplishments made to this end during the year include:

- Substantial completion of the Defense Property Accountability System (DPAS) implementation. This represented a significant improvement in the accounting for capital assets and depreciation.

- Revision of policy and procedures governing the review and payment of materiel transportation expenses, which facilitated reimbursement to DLA of over $40 million for erroneous billings.

- Renewed emphasis on review and analysis of monthly financial reports at all levels, which will contribute to improved annual financial reporting.

I believe these initiatives and others under way helped improve our Fiscal Year 1997 financial statements and will continue to benefit DLA management and reporting in the future.

Henry T. Glisson

HENRY T. GLISSON
Lieutenant General, USA
Director

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

CONSOLIDATED OVERVIEW

Overview

DEFENSE LOGISTICS AGENCY
DEFENSE WORKING CAPITAL FUND
FY 97 OVERVIEW

Introduction

The Defense Working Capital Fund (DWCF) combined existing business-like operations into a single revolving fund. The DWCF operates under the concept that the costs of providing/receiving a product and/or service should be visible to both the customer and provider. The DWCF provides a management structure that allows more DoD components the ability to provide and receive the best support at the lowest cost. A major feature of this structure is charging customers the total cost of providing a product and/or service. Reimbursements from the customers provide the working capital for the fund.

In FY 97, the Defense Logistics Agency (DLA) had five active activity groups funded through the DWCF and two inactive activity groups, as follows:

Active	
Supply Management Activity Group	97X4930.5C
Distribution Depots Activity Group	7X4930.5B
Reutilization and Marketing Service Activity Group	97X4930.5N
Information Services Activity Group	97X4930.5F50
Automated Printing Service Activity Group	97X4930.5G
Inactive	
Industrial Plant Equipment	97X4930.5M
Clothing Factory	97X4930.5Q

Supply Management Activity Group

The primary mission of the Supply Management Activity Group (Supply) is customer support through management of logistics processes, which includes:

- Inventory management for both peacetime and combat support;
- Transportation management (shared with the Distribution Depots Activity Group) for quick response in both normal and emergency situations;
- Technical management, which guarantees product quality and proper pricing of materiel; and
- Procurement management, which ensures that DoD gets the best value in procuring supplies with taxpayer dollars.

Supply manages approximately 4.0 million items used by the Military Services. Supply received 20 million requisitions in FY 97 and had sales amounting to $11.4 billion. Supply operates through five Defense Supply Centers and supporting activities with approximately 10,000 employees at the end of FY 97. The DLA supply centers procure the supplies in sufficient quantities to meet the Services' projected needs. The Columbus, Richmond and Industrial centers procure hardware items, including electronic components, industrial equipment, weapons support items, and construction materiel. The Fuels Supply Center purchases bulk petroleum and natural gas. The Personnel Support Center buys troop support materiel, i.e., subsistence stocks, medical supplies, clothing and textiles. The supplies are stored and distributed either through a complex of depots (Distribution Depots Activity Group) or shipped directly from vendors to customers.

Distribution Depots Activity Group

The primary mission of the Distribution Depots Activity Group (Distribution) is the distribution and storage of wholesale and retail materiel in support of customers worldwide. Distribution is responsible for receipt, storage, issue, packing, preservation and transportation arrangements for all items placed under its accountability by DLA and Military Service Inventory Control Points (ICPs). Currently this includes 6 million line items, 27 million annual transactions and nearly 32 million square feet of occupied storage space managed through the Defense Distribution Center and its 24 subordinate distribution depots positioned in the Continental United States and Europe.

These depots store a wide range of DoD commodities and end items for the support of the Military Services and authorized civil agency requisitioners. In addition to handling general supplies, individual depots specialize in unusual or difficult-to-handle items within DoD. These specializations include storage and transportation of DoD's packaged hazardous and flammable materials, performance of deployable medical hospital assembly operations and the wholesale distribution of semi-perishable food items.

Reutilization and Marketing Service Activity Group

The primary mission of the Defense Reutilization and Marketing Service (DRMS) Activity Group is the reuse of excess and surplus property within the government and other authorized agencies and the disposal of remaining property and hazardous waste items through sales and contractual vehicles. Items not reutilized within DoD are screened for possible transfer to other Federal agencies or for donation to local governments. Surplus property not reutilized is then offered for sale to the public on a competitive basis. Overall command and control of this program is accomplished by DRMS, which consists of a headquarters organization in Battle Creek, Michigan, and two operations offices, East and West. The mission of this organization is accomplished by individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lotting, merchandising, and sales. Excess items received by the DRMOs and meeting military service criteria are automatically referred to

DoD item managers through front-end screening notices. Inventory managers with requirements submit automated requisitions using standard requisition and issues procedures.

The disposition of hazardous property is accomplished according to its classification as hazardous waste or materiel in accordance with various stringent Federal, state and local laws. In this capacity, DRMS handles the majority of DoD property governed by the Resource Conservation Recovery Act (RCRA) of 1976, as amended. Generally all hazardous waste is directly disposed of through contracts funded by the military services. However, hazardous materiel has reutilization value and goes through the same general procedures as all other DoD property, with the distinction that it receives much closer scrutiny before it is offered for sale to the public.

The economic recovery of precious metals from excess and surplus metal-bearing materiel is also performed by DRMS. The recovered precious metal is used for authorized internal purposes or as Government Furnished Material (GFM). The costs to recover this materiel are passed on to the users.

Information Services Activity Group

The Information Services Activity Group was revised to include a DLA element at the beginning of FY 1996. On October 1, 1995, DLA began operation of its Information Services Activity Group with a single Central Design Activity (CDA), the DLA System Design Center (DSDC). The Activity Group combines DSDC and the Defense Automatic Addressing System Center (DAASC) with over 1,100 employees and an operating budget of $129.0 million.

The DLA Systems Design Center (DSDC) serves as a primary provider of integrated information management support, delivering responsive and innovative solutions to meet the DLA and DoD customers' needs. DSDC is the DLA Central Design Activity (CDA) operating within the Information Services Activity Group of the Defense Working Capital Fund. DSDC headquarters are in Columbus, Ohio, with nine other geographically dispersed satellite sites. These sites, which include Ogden, Utah and Battle Creek, Michigan, among others, allow for co-location with some of our major customers. DSDC currently has three major program areas. They are:

- Software development and maintenance
- Technology and infrastructure support to DLA
- The Defense Automatic Addressing System Center and Laboratory Operations (DAASC).

Software development and maintenance represents the primary mission of DSDC. This includes the design and development of new applications in direct support of DLA's mission and the maintenance of existing production legacy and migration Automated Information Systems (AIS).

Overview

Technology and infrastructure support and the DAASC constitute the remaining 30 percent or $38.1 million of total annual revenue. Infrastructure is the term used to describe the technology environment under the direct control of DLA. This environment consists of the facilities, computing platforms, hardware systems, software systems, network configurations, shared services, data architectures, repositories and information technology processes required to support the DLA mission. DSDC provides technology support in areas such as operating system installation and support, capacity planning and management, Electronic Commerce/ Electronic Data Interchange (EC/EDI), telecommunications support such as local area network (LAN) design and support, and the Defense Message System (DMS).

The DAASC, which was capitalized during FY94, is now a part of DSDC and serves as an essential utility, which provides two critical types of services to users. These are core supply and logistical transaction addressing and routing services and custom user-oriented management information services. The DAASC primary location is in Dayton, Ohio, with a satellite in Tracy, California. DoD users with a logistics or supply requirement process a transaction through their unique supply system which, in turn, transmits the requirement to the DAASC for editing, addressing and routing to the correct source of supply. DAASC operates 24 hours a day, 365 days a year processing an average of 4.5 million transactions daily. In addition, DAASC provides support to the Foreign Military Sales (FMS) Program with annual revenues of approximately $1.0 million.

DSDC services are utilized by a wide variety of DLA and DoD customers. Our products and services benefit the DLA supply centers by providing the means by which requisitions are processed and item buys are recommended. The distribution depots process line items shipped and receipts processed using systems DSDC developed. The Defense Contract Management Command (DCMC) uses our systems to process contractual documents worth billions of dollars. In the end, the war fighter benefits because his logistical needs are met, due in large part to the systems developed and maintained by DSDC.

Automated Printing Services Activity Group

The Automated Printing Service Activity Group's primary mission is printing, duplicating, and document automation for the Department of Defense (DoD). In FY 97, the Deputy Secretary of Defense changed the name of "Defense Printing Service" to "Defense Automated Printing Service" (DAPS). This change reflects the DAPS role in the DoD transition from hardcopy to electronic-based document management. DAPS has direct responsibility for the DoD automated printing program encompassing electronic conversion, retrieval, output, and distribution of digital and hard copy information. DAPS provides quality products and services that are competitively priced and delivered on time to their customers. DAPS is one of the first government organizations to conduct intra-government business using Visa's International Merchant Purchase Authorization Card (IMPAC). The use of the IMPAC card has resulted in significant cost savings, reduction in time required to process transactions, and in addition, it is "user friendly."

DAPS is comprised of a Corporate Support Team located at Fort Belvoir, Virginia, 78 major field locations and 163 smaller document automation facilities. Approximately 1,900 civilian personnel support the DAPS mission.

Industrial Plant Equipment

The Industrial Plant Equipment (IPE) Activity Group's primary function was dedicated to meeting the worldwide needs of the Department of Defense metal working machinery maintenance and the repair of current in-use Industrial Plant Equipment. IPE also supported the Military Services in times of National Emergency. The Defense Industrial Reserve Act (50 U.S.C. 451 et seq.) required IPE to provide for an industrial reserve of machine tools. Since FY 87, amendments to this Act have required the Services to pay for the repair, overhead and storage of Industrial Plant Equipment. The Services made economic decisions to engage IPE to perform reimbursable repair, rebuild or refabrication of equipment or procure new items. Eventually DLA downsized the industrial reserve to a demand based reparable inventory.

In January 1992, DLA consolidated the Defense Industrial Plant Equipment Center (DIPEC) with the Defense Supply Center Richmond (DSCR). DSCR manages the maintenance facility located in Mechanicsburg, Pennsylvania. In March 1992, the Office of Secretary of Defense (Production & Logistics) assigned single DoD Consolidated Materiel Management of FSG 34 reparable equipment to DLA. During FY 93, the New Procurement mission of the Industrial Plant Equipment Activity Group was transferred to the DLA Supply Management Activity Group and the Reparable Inventory storage function moved to the DLA Distribution Depots Activity Group. During FY 97, the depot maintenance mission of the IPE Activity Group was transferred to the Supply Management Activity Group.

The Reparable Inventory is demand based and retained for reutilization as an economic alternative to procurement of new equipment. The inventory is reported as Principal Inventory (Federal Supply Class 34) in the Supply System Inventory Report (SSIR) provided to the Office of Secretary of Defense (Production & Logistics). DSCR operates a system for the identification of metalworking machinery and performs associated federal cataloging tasks. DSCR also publishes handbooks and provides technical data in support of FSG 34 reparable machine acquisition, storage, maintenance and movement.

Financial activity associated with contracts let before IPE’s consolidation into Supply Management is expected to continue for the 5M appropriation for several years, at the conclusion of which all residual financial balances will be closed.

Clothing Factory

Through FY 94, DLA had a sixth business area, the Clothing Factory (97X4930.5Q). Effective September 30, 1994, the Clothing factory was closed under the Defense Base

Realignment and Closure Act (BRAC). At that date, all of its operations were discontinued, except for the Flag and Embroidery function which was transferred to Clothing & Textiles (C&T), located at the DPSC, Philadelphia, PA. All residual financial balances were closed during FY 97.

Strategic Operating Initiatives and Program Performance Measures

DLA continues its focus to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DLA emphasizes quality improvement, commercial business practices and modern technologies to reduce the cost to the customer while maintaining the maximum level of readiness support for the Services.

In January 1994, DLA was selected as the initial DoD pilot project under the Government Performance and Results Act of 1993 (GPRA). Although DLA completed its requirements under this project, it continues to establish an annual performance plan including operating initiatives designed to focus on specific objectives presented in the DoD Logistics Strategic Plan and the DLA Corporate Plan.

The program performance measures for each of the activity groups are included in the respective area's overview section. The operating initiatives are presented under four broad strategic goals. The following are the DLA strategic goals and representative activity groups initiatives.

1) Put Cutomers First

Supply

Stock Availability – Stock Availability measurement applies to NonFuel (excluding subsistence) and is the percentage of demands processed by the supply system without interruption. While it is a measure of timeliness, quantity, and customer satisfaction, DLA NonFuel (excluding subsistence) is funded to reach a targeted Supply Availability goal of 85%.

War Reserve Availability – Although the Fuel commodity availability always has been 100% in peacetime, its true purpose is to have enough fuel available in each Commander in Chief's (CINC) area of responsibility to prevent War Reserves levels from being penetrated. The performance for this goal is determined by the number of fuel types (in each CINC's area of responsibility where there is enough fuel on hand to meet his War Reserve requirement) to the total number of fuel types managed in all CINCs' area. This is referred to as the War Reserve Availability measure.

Distribution Depots

Customer Satisfaction Index – The success of Distribution in meeting its mission is measured primarily through the satisfaction of its customers. In October 1994, DLA Corporate Administration, at the direction of DLA Materiel Management (MM), conducted a survey of 30,000 customers, asking each their opinions on DLA MM products and services. The goal was to determine customer satisfaction with DLA in three areas: quality, responsiveness, and price. Results from this survey serve as a baseline for customer satisfaction measurement and reporting. DLA MM conducts a survey of a random sample of customers annually, comparing the results with the baseline survey. The customer satisfaction index which is the primary program performance measure for this initiative is based on survey data and measures the percentage of customers who are satisfied with DLA services/products.

Reutilization and Marketing Service

Reutilization/Transfer/Donation Enhancements – DRMS continued to excel in its first mission of reutilizing, transferring and donating (R/T/D) property to authorized customers. In FY 97, DRMS reutilized, transferred or donated $3.9 billion based on transfer value. This represented 18 percent of generations against our GPRA goal of 17.5 percent. At a fully burdened cost of $72 million, DRMS provided $3.9 billion in cost avoidance to DoD, Federal and State customers at a cost of $0.018 on the dollar of acquisition value. DRMS achieved this performance through improved automation, aggressive customer promotion through conferences and publications, and commodity analysis to target property to R/T/D customer needs. DRMS maintains a toll free customer service phone line to address questions or concerns participants may have pertaining to the R/T/D program.

Information Services

Ontime Deliverables – The success of Information Services in meeting its mission is measured primarily through the satisfaction of its customers. Ontime Deliverables is one program performance measure that exists to measure the current developmental status of project completion, and it compares the estimated project completion date to the current status (or the actual completion date) for deliverables. The delta provides information as to whether the development is within the stated tolerance of the estimate (either ahead of, exactly on, or behind schedule).

Automated Printing Service

Customer Satisfaction Index – A survey was administered to 412 customers randomly selected from a population of 2,533. To ensure that the survey results accurately reflected our customers' opinions, DAPS customers were divided into groups based on the branch of DoD Service, the DAPS geographic area, the length of time the customer had interacted with DAPS, and the volume of business revenue provided by the customer.

2) Improve the Process of Delivering Logistics Support

Supply

Total Asset Visibility – This initiative has been divided into a number of sub-Initiatives for both Supply and Distribution. One Supply initiative is In-Storage Visibility of Retail Assets. Progress on this initiative is tracked based on a number of factors and is discussed below:

In-Storage Visibility of Retail Assets promotes the visibility of retail assets available for use in filling backorders and offsetting new procurement. This initiative has reached an Initial Operation Capability (IOC) phase with selected Navy, Army, Air Force and Marine activities. As of the end of FY 97, approximately $59 million worth of retail asset redistributions from IOC sites have been accomplished at the direction of DLA Inventory Control Points (ICPs) to fill backorders and offset new procurements.

Distribution Depots

Mail-like Matter Movement (M3) – This is an initiative under the Express Delivery Reinvention Lab, a partnership with the U.S. Air Force, TRANSCOM, and Federal Express. M3 of classified materiel allows secret and confidential cargo to move quickly, securely and cheaply via express transportation within the Continental United States (CONUS).

Reutilization and Marketing Services

WorldWideWeb (WWW) – A Hammer Award was presented to a team of DRMS employees for the Information Superhighway Initiative. The award recognized process changes made possible because of the team's development of the DRMS WWW site. It allows anyone with a graphical interface to the Internet to search by noun, Federal Supply Class (FSC), national stock number (NSN) and geographic location. The DRMS WWW site was widely used, with over 3.5 million Web pages viewed. DRMS implemented a number of enhancements to the WWW site in FY 97. These included:

- Redesign of the Web site to establish a common "look and feel" to enable users to utilize DRMS processes more easily.

- Import of the Fed Log (FLIS) CDs to the Oracle database, allowing FLIS data to be linked to online property searches.
- Establishment of links from search output to available photographs of property.
- Posting of hazardous waste procurement solicitations.

Automated Printing Services

DAPS is dedicated to the transition from paper to electronic-based document management, and is an integral part of the DoD plan to evolve into the age of electronic documentation. DAPS is leading the effort to substantially reduce paper-based bulk printing and warehousing. This will be accomplished by converting paper documents to digital form, and providing the infrastructure for quick, economical, and secure digital distribution and output at the point of need.

3) Empower Employees

All Activity Groups

Employee empowerment initiatives continued to receive the full support of DLA. These initiatives include Affirmative Action Recognition, Employee Recognition, Equal Employment Opportunity Coverage, Professional Development and Teaming. As further illustration of the agency's commitment to this vital area, DLA established a separate office dedicated to employee development. Our efforts to develop the logistics workforce into a multiskilled and highly flexible resource are imperative with the downsizing efforts being undertaken throughout the DoD.

4) Increase readiness at reduced cost

Supply

Shift to Commercial Practices (SCP) – SCP includes Prime Vendor Contracts, Quick Response Contracts, Corporate Contracts, Customer Value Contracts, and all other long-term contracts. The SCP objective is to minimize operating and inventory investment costs using DLA leverage, and improve responsiveness to customers. A multi-faceted approach for achieving these objectives uses strategies such as direct vendor delivery, prime vendor, long-term/multi-year contracting, just-in-time delivery, and electronic commerce/electronic data interchange (EC/EDI). These contracts yield better quality, lower prices, shorter lead times and a reduced vendor base. Progress on this initiative is tracked based on a number of factors, two of which are discussed below:

- *Shift to Commercial Practices (SCP) as a Percent of Dollars Obligated* – SCP as a percent of dollars obligated grew to 78% (including DFSC), 61% (excluding DFSC) for year end FY97, up 72% (including DFSC) from 58% (excluding DFSC) at year end FY96.
- *EC/EDI Utilization as a Percent of Contracting Actions* – EC/EDI utilization measures the efficiency gained through the use of EC/EDI technology. The goal is to reach 85% utilization by 1998. EC/EDI utilization as a percent of contract actions for FY97 was 76%, up from 70% in FY96, and 67% in FY95.

Distribution Depots

Inventory Accuracy – DLA's policy states that accurate inventory records form the cornerstone of effective inventory control. One of our primary objectives is to maintain on-hand balance integrity. In order to attain current and future goals, the distribution depots will be required to conduct wall-to-wall inventories at selected depots and/or within isolated work centers. These inventories will be designed to increase the accuracy of inventory records, formalize and implement cycle count procedures to identify and correct processes, and implement quality control techniques to ensure that distribution balance-affecting processes are performed correctly.

Reutilization and Marketing Service

Activity Based Costing – DRMS partnered with KPMG Peat Marwick LLP to implement Activity Based Costing (ABC) to better measure the true cost of its processes. The DRMS ABC application assigns labor and non-labor costs to activities based on the level of effort spent on each activity. Activity costs are then directed to processes (reutilization, transfer, donation, sales, etc.). Finally, the process costs are directed to Federal Supply Class (FSC), giving DRMS visibility of the cost of disposing of individual commodities by the type of disposal method used (i.e., the cost to reutilize a vehicle, the cost to sell an engine, etc.). The ABC data will be used to identify areas for cost reduction, to support cost recovery billings to the Military Services and in making privatization decisions.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

DLA began preparing financial statements in accordance with the Act in 1992 and believes the information reported continues to improve. Nevertheless, several challenges remain and are discussed in the following paragraphs. During FY 94, DLA established short and long-term goals for creating a comprehensive financial management system, and undertook a number of initiatives to identify and assess the financial statement impact of current accounting practices. These goals and initiatives enabled DLA to establish milestones to improve financial data accuracy and reliability. DLA has worked diligently to reach these milestones during FY 95, FY 96 and FY 97, with significant progress achieved in the areas of accounts payable and receivable, property, plant and equipment and financial analysis. This process continues in FY 98.

The Federal accounting community continues to establish "Generally Accepted Accounting Principles" for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of "Generally Accepted Accounting Principles" will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

Supply is currently unable to comply with certain requirements under Federal Accounting Standards Advisory Board (FASAB) Statement Number 3 regarding the recognition of unrealized holding gains and losses upon the sale of inventory. Supply records these gains and losses when there is a change in the carrying cost. In FY 98, DLA-HQ and DFAS plan to work together to achieve a reliable and accurate solution to recognize these gains and losses at the proper time.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

Traditional fund management, prior to DWCF, did not require the calculation of depreciation on property, plant and equipment (PP&E). As a result, PP&E was not always accurately reflected in the accounting records, and through FY 94 DLA had not properly accounted for all the PP&E for which it was responsible. Significant progress has been made toward correcting this situation. In conjunction with the implementation of the Defense Property Accounting System (DPAS), all DLA field activities undertook the review and revision of their property records. Additionally, DLA began validating the records of sites with significant balances and/or discrepancies. DPAS implementation was substantially completed through the end FY 97.

Accounts Receivable and Accounts Payable include "undistributed" amounts which represent the differences between collections and disbursements on the general ledger and those which have been reported through the finance network/ACRS cash report. The Department has recognized the "undistributed" problem and is currently pursuing corrective actions. The Defense Finance and Accounting Service (DFAS) site in Columbus, OH, which supports DLA, has also recognized this problem and has assigned accounting personnel for each DLA activity group the responsibility of reconciling the finance network and ACRS cash figures.

Overview

Accounts Receivable and Accounts Payable include overaged and negative amounts that are currently under investigation for system and processing deficiencies. Significant progress has been made in resolving some of the overaged amounts within Accounts Receivable and Accounts Payable as a result of continuing emphasis on Unmatched Disbursements and Negative Unliquidated Obligations.

Financial Performance Measures

The financial performance measures for each of the activity groups are included in the respective area overview sections.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

CONSOLIDATED PRINCIPAL STATEMENTS

Principal Statements

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($414,163)	$424,157
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	639,674	769,606
(4) Interest Receivable	0	0
(5) Advances and Prepayments	22	119
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	177,701	205,665
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	178,244	199,752
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	9,824,808	9,542,887
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	18,850	1,653
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	1,272,251	808,548
l. War Reserves	0	0
m. Other Entity Assets	237,353	246,773
n. Total Entity Assets	$11,934,740	$12,199,160
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$23,762	$21,937
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	65,966	38,362
e. Total Non-Entity Assets	$89,728	$60,299
3. Total Assets	$12,024,468	$12,259,459
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$677,526	$826,069
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	87,544	183,069
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	811,824	931,484
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	16,235	5,272
(b) Annual Accrued Leave	102,190	96,496
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	67,519	65,324
c. Total Liabilities Covered by Budgetary Resources:	$1,762,838	$2,107,714

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	191,226	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$191,226	$0
6. Total Liabilities	$1,954,064	$2,107,714
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	20,020,765	24,768,356
c. Cumulative Results of Operations	(9,759,135)	(8,630,905)
d. Other	0	(5,985,706)
e. Future Funding Requirements	(191,226)	0
f. Total Net Position	$10,070,404	$10,151,745
8. Total Liabilities and Net Position	$12,024,468	$12,259,459

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	364,690	392,855
b. Intragovernmental	12,263,255	12,733,177
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	244,897	101,321
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$12,872,842	$13,227,353
EXPENSES		
9. Program or Operating Expenses (Note 23)	$2,535,115	$4,497,343
10. Cost of Goods Sold (Note 24)		
a. To the Public	397,498	156,912
b. Intragovernmental	10,064,031	8,554,585
11. Depreciation and Amortization	92,624	76,510
12. Bad Debts and Writeoffs	132	19
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	143	224
14. Other Expenses (Note 25)	993,642	820,516
15. Total Expenses	$14,083,185	$14,106,109
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($1,210,343)	($878,756)
17. Plus (Minus) Extraordinary Items (Note 26)	(825)	(2,500)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,211,168)	($881,256)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$10,151,745	$10,876,495
20. Adjustments (Note 27)	78,391	(375,389)
21. Net Position, Beginning Balance, as Restated	$10,230,136	$10,501,106
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,211,168)	(881,256)
23. Plus (Minus) Non Operating Changes (Note 28)	1,051,436	531,895
24. Net Position, Ending Balance	$10,070,404	$10,151,745

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($1,211,168)	($881,256)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(96,385)	701,043
4. Decrease (Increase) in Other Assets	1,471,392	928,056
5. Increase (Decrease) in Accounts Payable	(14,061)	(44,301)
6. Increase (Decrease) in Other Liabilities	(78,209)	30,416
7. Depreciation and Amortization	92,620	76,510
8. Other Unfunded Expenses	0	(97,819)
9. Other Adjustments	(238,324)	(112,478)
10. Total Adjustments	$1,137,033	$1,481,427
11. Net Cash Provided (Used) by Operating Activities	($74,135)	$600,171
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(227,729)	(131,414)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($227,729)	($131,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	7,445	330,824
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	543,901	1,182,252
23. Net Appropriations	($536,456)	($851,428)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Consolidated Statements
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	($536,456)	($851,428)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($838,320)	($382,671)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	$424,157	$806,828
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($414,163)	$424,157

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$1,671	$679

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$1,640,769	$1,417,377

The accompanying notes are an integral part of these statements.

Principal Statements

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

FOOTNOTES TO THE CONSOLIDATED PRINCIPAL STATEMENTS

DEFENSE WORKING CAPITAL FUND CONSOLIDATED NOTES TO THE PRINCIPAL STATEMENTS AS OF SEPTEMBER 30, 1997

Note 1. Summary of 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), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of DLA in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, DLA accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the DLA financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the Department of Defense (DoD). The primary focus of DLA is to provide logistics support to the warfighter. In addition, DLA provides support to relief efforts during times of national emergency.

DLA Supply Management Activity Group (Supply) helps carry out this mission by procuring, managing and supplying over three billion consumable items to Military Departments, other DoD components, Federal agencies and selected foreign governments. Supply is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5C.

The Distribution Depot Activity Group (Distribution) receives, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments and other DoD components, Federal agencies, and selective foreign governments. The current depot structure encompasses 24 depots and 5 storage locations. All depot sites report directly to the Defense Distribution Center (DDC) located at New Cumberland, Pennsylvania. Distribution's mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5B.

The overall mission of the Defense Reutilization and Marketing Service Activity Group (DRMS) is to provide reutilization services to DoD. DRMS accomplishes its mission through the individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal-bearing materiel. The appropriation symbol is 97X4930.5N.

The Information Services Activity Group was revised to include a Defense Logistics Agency (DLA) element at the beginning of FY 96. On October 1, 1995, DLA began operation of its Information Services Activity Group with a single Central Design Activity (CDA), the DLA System Design Center (DSDC). The Activity Group combines DSDC and the Defense Automatic Addressing System Center (DAASC) with over 1,100 employees and an operating budget of $129 million.

The DLA Systems Design Center (DSDC) serves as a primary provider of integrated information management support, delivering responsive and innovative solutions to meet DLA and DoD customers' needs. DSDC is the DLA CDA operating within the Information Services Activity Group of the Defense Working Capital Fund. DSDC headquarters are in Columbus, Ohio, with nine other geographically dispersed satellite sites. These sites, which include Ogden, Utah and Battle Creek, Michigan, among others, allow for co-location with some of our major customers. The appropriation symbol is 97X4930.5F50.

Defense Automated Printing Service Activity Group (DAPS) has direct responsibility for the DoD printing program and document automation, encompassing value-added conversion, electronic storage and output, and the distribution of hard copy and digital information. DAPS manages a worldwide printing, duplicating, document automation, production, and procurement network.

On 1 October 1996, Defense Printing Service (DPS) was renamed Defense Automated Printing Service (DAPS) as it converted from the Navy Defense Business Operations Funds to the DLA Defense Working Capital Fund. Also in May 1997, Defense Finance and Accounting Service (DFAS) began the implementation of the Defense Working Accounting System (DWAS). DWAS is the first Commercial Off The Shelf DoD migratory accounting system.

The CFO Act requires DAPS, as a business entity under DWCF, to provide audited financial statements. Due to the difficulties DFAS encountered while implementing the new system, accounting reports were not available to DAPS at the end of the fiscal year, thus an audit to confirm the validity of the data reported could not be prepared. The appropriation symbol is 97X4930.5G.

Footnotes

The overall mission of the Industrial Plant Equipment Activity Group (IPE) is to repair, overhaul, rebuild, and modify industrial plant equipment for the Military Services. This Activity Group also supplies depot maintenance support to the DLA National General Reserves of IPE and provides on site repair services at DoD industrial activities. This mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5M. Effective FY 97, this Activity Group was merged with the Supply Management Activity Group.

The Clothing Factory (Clothing) manufactured clothing and textile items for all DoD components. Effective September 30, 1994, the Clothing factory was closed under the Defense Base Realignment and Closure Act (BRAC). At that date, all of its operations were discontinued, except for the Flag and Embroidery function which was transferred to Clothing & Textiles. DoD policy for the Personal Property Utilization and Disposal Program requires all installations cited for closure to cooperate with the community in identifying related property that may be available for civilian use. All residual balances have been researched and closed. Clothing's mission was funded through the Defense Business Operations Fund (DBOF) now known as the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5Q.

C. Budgets and Budgetary Accounting:

Each Activity Group receives an annual operating budget (AOB) in unit cost terms. Unit Cost Resourcing provides the operating expense authority/cost authority for such items as salaries, nonlabor expenses, and materiel within each activity. Cost authority or the amount "earned" depends on the actual work load times the unit cost goals. Each Activity Group can also receive reimbursable authority for outputs/goods and services that are not contained in the unit cost goals. Host support for a tenant is an example.

Activity Groups may also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. However, the Office of the Secretary of Defense (OSD) has not issued official accounting guidance regarding this reporting requirement and current accounting systems used to record earnings, expenses, collections and disbursements have not been designed to identify and retain this information at the appropriate detail level. Therefore, in order to comply with this requirement, estimated calculations are provided. Note 29 identifies the eliminations in general terms; however, due to our inability to capture the necessary financial data, certain schedules are completed in full while others are incomplete.

E. Revenues and Other Financing Sources:

Revenues and financing sources for Supply consist of reimbursements from customers for sales of inventory and services.

Revenues and financing sources for Distribution consist of reimbursements from Supply Management for receipt and issue of materiel and reimbursable funding provided by local activities for non-mission work. Revenues are recognized when earned based on actual workload for the period. Revenue may be billed up to two months after work is performed. These financial statements include an adjustment to accrue for these billings.

Revenues and financing sources for DRMS consist of proceeds from the sale of property to the public along with reimbursements from the hazardous disposal and precious metals recovery programs. Revenue is not earned for the reutilization, transfer, and donation programs.

Revenues and financing sources for Information Services, DAPS and IPE consist of reimbursements from customers for services provided. Revenues are recognized when the service has been performed.

Revenues and financing sources for Clothing consist of reimbursements from customers (primarily Supply Management and the Base Realignment and Closure (BRAC) account) for work performed and services rendered. Revenues are recognized on a percentage of physical completion basis.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand-alone entity.

DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Beginning balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by OSD, DLA obtains cash receipt and disbursement information from the finance network/ACRS cash report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/ACRS cash report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

Gains and losses from foreign currency transactions are not recognized in the statement of operations. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. There are no foreign currency translation adjustments.

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources. An allowance for uncollectible accounts has not been established as DLA has generally not experienced significant uncollectible amounts.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/ACRS cash report. As a result of the transfer of accounting and management responsibilities, DLA has had limited capability to reconcile these differences.

Accounts receivable also include numerous over-aged and negative transactions. See Note 31 for detail on the amounts of these transactions at year-end.

J. Loans Receivable:

DLA Activity Groups do not lend money.

K. Inventories:

SUPPLY

Inventories are valued at Latest Acquisition Cost (LAC). The latest acquisition cost method provides that the last representative invoice price shall be applied to all like units held, including units acquired through donation, non-monetary exchange, and return from end use or reutilization. The difference between contract cost (historical cost) and the inventory valued at LAC is reported as a component of cost of goods sold in the Statement of Operations. Official accounting guidance requires that this amount be recognized upon the sale or disposal of materiel, rather than as the price variance occurs. Currently, DLA Supply Management's accounting systems are unable to comply with this accounting guidance and the holding gains and losses are recognized when the price change occurs.

DISTRIBUTION

Distribution performs the warehousing function for the DoD; however, it owns no materiel inventory. Inventory stored in the depots is owned and managed by other Activity Groups (primarily DLA and the Services' Supply Management) and by entities outside the DWCF.

DRMS

DRMS does not have inventory. Disposal property is classified and reported as "Other Entity Assets" in accordance with DoD reporting guidance. This property is not "primarily" held for sale, and therefore does not meet the definition of inventory for classification purposes.

INFORMATION SERVICES

No inventories are maintained.

DAPS

Inventories include operating supplies and non-consumable items. Direct material inventory is valued at the weighted average method.

IPE

IPE repairs, overhauls, rebuilds and modifies industrial plant equipment; however, IPE owns no materiel inventory.

CLOTHING

No inventories remain.

L. Investments in U.S. Government Securities:

DLA Activity Groups do not invest in U.S. Government securities.

M. Property, Plant and Equipment:

Equipment is capitalized according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, greater than or equal to $50,000 for FY 95, greater than or equal to $100,000 for FY96 and FY97.

- Estimated useful life is two years or more.

Capital assets in DLA, with the exception of DAPS, are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. The capital assets for DLA include such items as ADP equipment, materiel handling equipment, and software.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods and services are received.

O. Leases:

DLA is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

Additionally, Supply Management may act as host to tenant activities on certain installations. These amounts are billed under Interagency Service Agreements and generally have only included the fees for services provided. Revenue is recognized when the amounts are received from the tenant activity.

DLA may also be party (as lessee) to a limited number of leases that meet the criteria of capital leases. However, DLA's accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized, but expensed as incurred.

P. Contingencies:

DLA may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect DLA operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year, the balance in the accrued annual leave account is adjusted to reflect changes to those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of invested capital, capitalization of assets, cumulative results of operations, future funding requirements, and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to DLA Activity Groups.

T. Treaties for Use of Foreign Bases:

DLA has not entered into treaties for the use of foreign bases.

Footnotes

U. Comparative Data:

The financial statements present FY 96 and FY 97, with the exception of DAPS, which is new in FY 97. This comparative data is presented to provide an understanding of changes in the financial position and operations of the DLA Activity Groups.

Note 2. Fund Balances with Treasury

A. Business Operations Fund (USD(C)) and All Other Funds and Accounts:

Not applicable.

B. Business Operations Fund Activities Below USD(C) Level:

Entity Assets:

	1997	1996
Beginning Balance	424,157	806,828
Transfers of Cash to Others	(629,884)	(1,182,252)
Transfers of Cash from Others	93,428	330,824
Funds Collected	13,540,831	13,580,977
Funds Disbursed	(13,842,695)	(13,112,220)
Ending Balance	(414,163)	424,157

C. Business Operations Fund Activities and All Other Funds and Accounts:

Non-Entity Assets:	Funds Collected	Funds Disbursed
Beginning Balance	174,898	152,961
Funds Collected	51,414	0
Funds Disbursed	0	49,589
Ending Balance	226,312	202,550

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the Military Services' Listing and ACRS cash report. These reports are then reconciled to the general ledger and all differences are recorded as undistributed amounts in accounts receivable and accounts payable.

Non-entity assets represent amounts included in temporary suspense which are forwarded to non-DWCF recipients. That balance is stated in Note 2C.

Note 3. Cash, Foreign Currency and Other Monetary Assets

Not applicable.

Note 4. Investments

Not applicable.

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectible	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	639,674	0	N/A	639,674
Governmental	177,792	(91)	Actual	177,701
B. Non-Entity Receivables:				
Intragovernmental	0	0	N/A	0
Governmental	0	0	N/A	0
Total	817,466	(91)	N/A	817,375

C. Other Information:

The difference between cash collections in the ACRS cash report and the general ledger is undistributed. This amount is recorded as an adjustment to accounts receivable.

Note 6. Other Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Footnotes

<u>Note 8. Inventory, Net</u>

A. Inventory Categories:

		Inventory Amount	Allowance for Losses	Inventory Net	Valuation Method
(1)	Held for Current Sale	9,939,942	0	9,939,942	LAC
(2)	Held in Reserve for Future Sale/War Reserve Materiel	1,588,372	0	1,588,372	LAC
(3)	Excess,Obsolete,&Unserviceable	(1,811,944)	0	(1,811,944)	% of LAC
(4)	Held for Repair	108,438	0	108,438	LAC
	Total	9,824,808	0	$9,824,808	

B. Restrictions on Inventory Use, Sale, or Disposition:

"Held in Reserve for Future Sale" is inventory being held for research or reclassification. This inventory is held until final disposition and is not available for immediate sale. War Reserve Materiel are considered restricted, also. These materiel are used in the event of a war or national emergency.

C. Other Information:

1. <u>Inventory Held for Sale</u> - This category of inventory includes most supply system materiel that is in an issuable condition.

2. <u>Excess, Obsolete and Unserviceable</u> - This category consists of items that are determined to be beyond economic and contingency retention stock levels, and as a result, arereported as potential reutilization/disposal materiel. This category also includes inventory that is no longer needed due to changes in technology, laws, customs or operations. Unserviceable items includes items not expected to survive repair after a technical evaluation at a maintenance activity is performed, and also includes damaged inventory that is not economical to repair.

3. <u>Inventory Held For Repair</u> - These are inventory items that are not in an issuable condition (but are not beyond economical repair) and are awaiting repair before they are eligible for sale.

<u>Note 9. Work in Process</u>

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

A. OM&S Categories:

	(1) OM&S Amount	(2) Allowance for Losses	(3) OM&S, Net	(4) Valuation Method
(1) Held for Use	18,850	0	18,850	LAC
(2) Held in Reserve for Future Sale	0	0	0	
(3) Excess, Obsolete, & Unserviceable	0	0	0	
(4) Held for Repair	0	0	0	LAC
Total	18,850	0	18,850	

Note 11. Stockpile Materiel

Not applicable.

Note 12. Seized Property

Not applicable.

Note 13. Forfeited Property, Net

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not applicable.

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land:	-	-	0	0	0
B. Structures, Facilities, Leasehold Improvements:	SL	20	1,743,308	1,023,821	719,487
C. Military Equipment:	-	-	68,144	44,687	23,457
D. ADP:	SL	5	12,422	11,575	847
E. Equipment:	SL	10	751,897	302,256	449,641
F. Assets under Capital Lease:	-	-	0	0	0
G. Other:	-	-	495	0	495
H. Natural Resources:	-	-	0	0	0
I. Construction in Progress:	-	-	78,324	0	78,324
Total:			2,654,590	1,382,339	1,272,251

* Key:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digits	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other (describe)	

J. Other Information:

Capital assets in DLA, with the exception of DAPS, are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes.

Distribution is in the process of implementing the Distribution Standard System (DSS) throughout all of its depots. Through 9/30/97, the total cost of this system is in excess of $80 million. Distribution is in the process of determining how to implement the guidance contained in the DoD Financial Management Regulation, establishing the appropriate time DSS was placed in service and therefore begins depreciating. However, for the FY 97 financial statements, this amount has not been capitalized.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Note 16. Debt

Not applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(a) Reserve for equity for others	0	135,833	135,833
(b) Undistributed Cash	0	(72,051)	(72,051)
Disbursements	0	23,762	23,762
(c) Suspense Account			
Total	0	87,544	87,544
2. Governmental			
(a) Other	0	10,945	10,945
(b) Deferred Revenue	56,574	0	56,574
Total	56,574	10,945	67,519

B. Other Information:

"Reserve for equity for others" includes the amounts of cash transferred to Supply by participating civilian agencies or Military Services.

"Suspense Account" represents amounts included in temporary suspense which are forwarded to non-DWCF recipients.

Governmental "Other" represents a general ledger amount to temporarily classify liabilities until specific account distribution or liquidation is determined.

C. Other Liabilities Not Covered by Budgetary Resources:

Not applicable.

D. Other Information:

Not applicable.

Note 18. Leases:

A. Entity as Lessee:

DLA is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. DLA generally leases facilities and equipment from year to year under Interservice Support Agreements. Although these agreements may extend for longer than one year, the majority can be renegotiated, and thus are not considered noncancelable. Rental expense associated with these agreements is expensed when paid.

B. Entity as Lessor:

DLA may act as host to tenant activities on certain installations. Amounts are billed under Interservice Support Agreements and generally have included only the fees for services provided.

C. Other Information:

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate	Assets Available to Pay Benefits	Unfunded Actuarial Liability
A. Pension and Health Plans	0	0	0	0
B. Insurance/Annuity Programs	0	0	0	0
C. Other	0	0	0	191,226
D. **Total**	0	0	0	191,226

E. Other Information:

Future workers' compensation figures are provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits 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 related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's, June 10, 1997, economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

	1997
Year 1	6.24%
Year 2	5.82%
Year 3	5.60%
Year 4	5.45%
Year 5 & thereafter	5.40%

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital:	20,020,765	0	0	20,020,765
C. Cumulative Results of Operations:	(9,759,135)	0	0	(9,759,135)
D. Other:	0	0	0	0
E. Future Funding Requirements:	(191,226)	0	0	(191,226)
F. Total:	10,070,404	0	0	10,070,404

G. Other Information:

See individual Activity Group footnotes for Other Information concerning Net Position.

Note 21. Taxes

Not applicable.

Note 22. Other Revenue and Financing Sources

A. Other Revenues and Financing Sources:	1997	1996
(1) GLAC 480-Other	69,528	101,321
(2) GLAC 560-Other	2,782	0
(3) Imputed Pension & Other Reitirement Benefits (ORB):		
(a) CSRS/FERS Retirement	121,289	0
(b) FEHB	51,144	0
(c) FGLI	154	0
Total	244,897	101,321

B. Other Information:

Items (1) and (2): Other revenue and financing sources include cash collections which do not relate to the primary mission of the DLA Activity Groups.

Item (3): Represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Note 23. Program or Operating Expenses

	1997	1996
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	638,449	1,475,156
(2) Travel and Transportation	96,236	546,152
(3) Rental, Communication and Utilities	39,731	68,997
(4) Printing and Reproduction	12,690	14,972
(5) Contractual Services	936,743	1,395,629
(6) Supplies and Materials	33,066	85,653
(7) Equipment not Capitalized	92,361	100,883
(8) Grants, Subsidies and Contributions	203	207
(9) Insurance Claims and Indemnities	0	0
(10) Others (describe):		
(a) Interest	1,671	679
(b) Transportation - Materiel	292,052	375,529
(c) Repair Expense - Materiel	12,934	17,781
(d) Other Expenses	378,979	415,705
(11) Total Expenses by Object Class	2,535,115	4,497,343

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

As directed by DFAS Headquarters, operating expenses for FY 97 have been considered on Line A.2 of Cost of Goods and Services Sold of Note 24, rather than as Operating Expenses, as declared in FY 96. The above Operating Expenses for FY97 include only the Supply Management Activity Group. FY96 Expenses include all Activity Groups, therefore, the data is not comparable for the two fiscal years.

Note 24. Cost of Goods and Services Sold

A. Cost of Services Sold:

(1) Beginning Work-in-Process	0
(2) Plus: Operating Expenses	1,455,227
(3) Minus: Ending Work-in-Process	0
(4) Minus: Completed Work for Activity Retention	(5,194)
Cost of Services Sold	1,450,033

B. Cost of Materiel Sold from Inventory:

(1) Beginning Inventory - L.A.C	9,540,719
(2) Minus: Beginning Allowance for Unrealized Holding Gains (Losses)	0
(3) Plus: Purchases at Cost	8,728,499
(4) Plus: Customer Returns-Credit Given	0
(5) Plus: DLR Exchange Credits	0
(6) Minus: Inventory Losses Realized	(820,996)
(7) Minus: Ending Inventory - L.A.C.	(9,824,808)
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	0
(9) Minus: Equity Transfers of Inventory to Others	(25,995)
(10) Plus: Equity Transfers of Inventory from Others	1,414,077
(11) Equals: Cost of Goods Sold from Inventory	9,011,496

C. Other Information:

The costs of inventory sold are not specifically identified to the buyer (Government or Public). However, sales are identified to the buyer, therefore a sales allocation percentage is applied to the total cost of goods sold to report the costs as Intragovernmental or to the Public. The sales allocation percentage for the Public sales was approximately 2%.

Note 25. Other Expenses

A. Other Expenses:

	1997	1996
(1) Potential Reutilization	98,538	(251,883)
(2) Property Disposal	711,385	1,074,512
(3) Loss Due to Shrinkage, Theft	11,072	0
(4) Real Property Maintenance	60	0
(5) Prior Year Expense Adjustment	0	(2,113)
(6) Imputed Pension & Other Reitrement Benefits (ORB):		
(a) CSRS/FERS Retirement	121,289	0
(b) FEHB	51,144	0
(c) FGLI	154	0
Total	993,642	820,516

B. Other Information:

Potential Reutilization Inventory (previously called potential excess inventory) are inventory items in excess of approved force acquisition objectives and approved force retention stock objectives. These assets are written down in accordance with current DoD accounting guidance to a percentage of LAC. The percentage that is applied to these assets depends upon whether the item is serviceable or unserviceable.

Item (6), above, represents the imputed expense for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity responsible for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

Note 26. Extraordinary Items

In FY96, DRMS recorded an expense of $2,500,000 (in whole dollars) to settle litigation over a prior year sale of ships. This expense is unusual in nature and not expected to recur.

In FY97, DRMS recorded an expense of $825,000 (in whole dollars) to settle litigation over a claim regarding the misrepresentation of weight and metallurigical content of 535 M551 AR/AAV tanks located at Anniston Army Depot. This expense is unusual in nature and not expected to recur.

Note 27. Prior Period Adjustments

	1997	1996
A. Prior Period Adjustments:		
(1) Understatement of expenses in FY95 (5B)	0	(4,877)
(2) Overstatement of revenues in FY94 (5B)	0	(30,141)
(3) Subsistence-Transportation (5C)	0	(19,511)
(4) Fuels-Congressional Mandated Refund (5C)	0	(137,600)
(5) JLSC Transfer (5C)	0	(46,720)
(6) Prior Period Unfunded (5C)	0	(66,811)
(7) Adjustment to Capitalized Assets (5C)	0	(82,339)
(8) Prior Period Expense Adjustment (5M)	7	(93)
(9) De-Obligation of expenses from FY92 through FY95	0	12,705
(10) Overstatement of expenses in FY96 (5B)	1,511	0
(11) Unfunded Annual Leave (5C)	(48,265)	0
(12) DLA PAC (5C)	5,924	0
(13) Other (5C)	73,882	0
(14) Adjustment to Capitalized Assets (5N)	22,896	0
(15) Prior Period Expense Adjustment (5N)	(4,117)	0
(16) Prior Period Expense Adjustment (5N)	(446)	0
(17) Prior Period Expense Adjustment (5N)	(6,033)	0
(18) DLA PAC Transfer Adjustment (5N)	(12)	0
(19) Overstatement of expenses in FY96 (5B)	33,044	0
Total	78,391	(375,389)

Footnotes

Note 28. Non-Operating Changes (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Cash	1,428,653	1,818,862
(b) Equipment	126,232	79,010
(c) Disposal Property	40,256	0
(2) Donations Received	263,988	35,136
(3) Other Increases - cash and consumable item transfers	1,432,806	1,285,766
(4) **Total Increases**	3,291,935	3,218,774
B. Decreases:		
(1) Transfers-Out:		
(a) Cash	1,908,909	2,660,450
(b) Equipment	115,222	10,593
(c) Disposal Property	2,267	3,574
(2) Donations	0	0
(3) Other Decreases	214,101	12,262
(4) **Total Decreases**	2,240,499	2,686,879
C. Net Non-Operating Changes (Transfers):	1,051,436	531,895

D. Other Information

Not applicable.

Note 29. Intrafund Eliminations

Schedule A: Not applicable.

Schedule B:

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts *Receivable	Revenue	Unearned Revenue	*Collections
DLA, Distribution Depots	54,454	590,924	0	599,575
DLA, Supply Management,Materiel	42,730	33,032	0	32,476
DLA, Supply Management,Operations	127,639	236,996	0	165,843
DLA, Information Services	23,347	94,429	0	90,665
DLA, Industrial Plant & Equipment	(55)	(238)	0	(223)
DLA, Reutilization & Marketing	6,167	13,265	0	11,878
	254,282	968,408	0	900,214

Customer Activity:	Column A	Column B	Column C	Column D
	Accounts *Payable	Expenses	Advances	*Disbursements
Intra DLA Support	27,627	57,470	0	55,148
DLA Between DLA	84,399	277,374	0	234,786
DLA Precious Metals (DPDS)	1,765	6,204	0	7,249
Intra DLA (Stk Fnd or Indus Fnd)	140,490	627,360	0	603,031
TOTAL	254,281	968,408	0	900,214

Schedule C:

Selling Activity:	Column A	Column B	Column C	Column D
	Accounts *Receivable	Revenue	Unearned Revenue	*Collections
DLA, Distribution Depots	61,656	669,593	0	679,407
DLA, Supply Management,Materiel	370,123	10,668,302	0	10,686,117
DLA, Supply Management,Operations	134,249	266,569	0	220,942
DLA, Information Services	7,909	32,449	0	31,133
Defense Automated Printing Service	0	210,864	0	210,864
DLA, Industrial Plant & Equipment	1,281	5,434	0	5,088
DLA, Reutilization & Marketing	50,682	72,852	56,573	89,520
	625,900	11,926,063	56,573	11,923,071

Customer Activity:	Column A	Column B	Column C	Column D
	Accounts *Payable	Expenses	Advances	*Disbursements
Department of the Army	159,098	2,554,330	0	2,548,225
Department of the Navy	169,270	4,125,319	56,573	4,133,703
Department of the Air Force	150,909	4,494,052	0	4,476,204
Army WCF	0	474	0	474
Navy WCF	0	20,286	0	20,286
Air Force WCF	0	996	0	996
DFAS WCF	0	8,760	0	8,760
U.S. Army Corps of Engineers	4,716	8,980	0	6,836
Other Defense Organizations	141,907	712,866	0	727,587
TOTAL	625,900	11,926,063	56,573	11,923,071

Schedule D:

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts *Receivable	Revenue	Unearned Revenue	*Collections
DLA, Distribution Depots	201	15	0	627
DLA, Supply Management,Materiel	75,287	146,149	0	147,062
DLA, Supply Management,Operations	3,096	3,415	0	4,935
DLA, Information Services	(3,271)	5	0	(309)
Defense Automated Printing Service	0	13,700	0	13,700
DLA, Industrial Plant & Equipment	1,132	341	0	826
DLA, Reutilization & Marketing	1,302	648	0	1,577
	77,747	164,273	0	168,418

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts *Payable	Expenses	Advances	*Disbursements
General Services Administration	3,509	5,913	0	7,060
Agriculture	35,491	23,746	0	21,863
Interior	5,781	2,255	0	992
NASA	4,339	17,622	0	17,549
State	331	349	0	525
Transportation	2,380	10,034	0	9,996
Treasury	335	1,698	0	1,741
Veterans Afairs	2,835	4,112	0	4,265
All Other Government Agencies	22,746	98,544	0	104,427
TOTAL	77,747	164,273	0	168,418

Note 30. Contingencies

Not Applicable.

Note 31. Other Disclosures

UNMATCHED DISBURSEMENTS, NEGATIVE UNLIQUIDATED OBLIGATIONS, AND AGED IN-TRANSIT DISBURSEMENTS

Treasury Index 97 Appropriations	Sept 1996	Sept 1997	$ Change	% Change
Unmatched Disbursements	174,275	165,837	(8,438)	(5%)
Negative Unliquidated Obligations	7,748	21,654	13,906	179%
Aged In-Transit Disbursements	261,643	310,187	48,544	19%
Totals	443,666	497,678	54,012	12%

Footnotes

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

SUPPLY MANAGEMENT

OVERVIEW

Overview

DEFENSE WORKING CAPITAL FUND
FY 97 OVERVIEW
SUPPLY MANAGEMENT ACTIVITY GROUP
DEFENSE LOGISTICS AGENCY

The primary mission of the Supply Management Activity Group (Supply) is customer support through management of logistics processes, which includes:

- Inventory management for both peacetime and combat support;
- Transportation management (shared with the Distribution Activity Group) for quick response in both normal and emergency situations;
- Technical management, which guarantees product quality and proper pricing of materiel; and
- Procurement management, which ensures that DoD gets the best value in procuring supplies with taxpayer dollars.

Supply manages approximately 4.0 million items used by the Military Services. Supply received 20 million requisitions in FY 97 and had sales amounting to $11.4 billion.

Supply operates through five Defense Supply Centers and supporting activities with approximately 10,000 employees at the end of FY 97. The Defense Logistics Agency (DLA) supply centers procure the supplies in sufficient quantities to meet the Military Services' projected needs. The five DLA supply centers are:

- Defense Supply Center Columbus (DSCC), Columbus, OH;
- Defense Fuel Supply Center (DFSC), Fort Belvoir, VA;
- Defense Supply Center Richmond (DSCR), Richmond, VA;
- Defense Industrial Supply Center (DISC), Philadelphia, PA;
- Defense Personnel Support Center (DPSC), Philadelphia, PA.

The Columbus, Richmond and Industrial centers procure hardware items, including electronic components, industrial equipment, weapons support items, and construction materiel. The Fuels Supply Center purchases bulk petroleum and natural gas. The Personnel Support Center buys troop support materiel, i.e., subsistence stocks, medical supplies, clothing and textiles. The supplies are stored and distributed either through a complex of depots (Distribution Depots Activity Group) or shipped directly from vendors to customers.

Although clothing, subsistence, medical, and petroleum products only account for approximately three percent of the items that Supply manages, they amount to approximately 63% of the dollar value of Supply sales at standard price.

Overview

Supply's goal is to provide service that ensures military readiness, while reducing the total cost to the customer.

Strategic Operating Initiatives

DLA continues its focus to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DLA emphasizes quality improvement, commercial business practices and modern technologies to reduce the cost to the customer while maintaining the maximum level of readiness support for the Services.

In January 1994, DLA was selected as the initial DoD pilot project under the Government Performance and Results Act of 1993 (GPRA). Although DLA completed its requirements under this project, it continues to establish an annual performance plan including operating initiatives designed to focus on specific objectives presented in the DoD Logistics Strategic Plan and the DLA Corporate Plan.

The operating initiatives are presented under four broad strategic goals. The following are the DLA strategic goals and representative Supply initiatives.

1) Put customers first

Stock Availability – Stock Availability measurement applies to Non-Fuel (excluding subsistence) and is the percentage of demands processed by the supply system without interruption. While it is a measure of timeliness, quantity, and customer satisfaction, DLA Non-Fuel (excluding subsistence) is funded to reach a targeted Supply Availability goal of 85%.

War Reserve Availability – Although the Fuel commodity availability always has been 100% in peacetime, its true purpose is to have enough fuel available in each Commander in Chief's (CINC) area of responsibility to prevent War Reserves levels from being penetrated. The performance for this goal is determined by the number of fuel types (in each CINC's area of responsibility where there is enough fuel on hand to meet the War Reserve requirement) to the total number of fuel types managed in all CINC's areas. This is referred to as the War Reserve Availability measure.

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Supply Availability	86.4%	85.7%	85.0%
War Reserve Availability	92.0%	86.0%	90.0%

The Supply Availability for Non-Fuel decreased slightly from 86.4% to 85.7%, still achieving the FY 97 goal of 85%. The FY 97 goal of 90.0% for Fuels was not achieved as a result of DLA's decision to temporarily draw down inventory to conserve cash. Although War

Reserve inventory was not directly drawn down, the placement and timing of inventory deliveries caused a temporary shortage to war reserve at certain locations.

Product Conformance Verification – This initiative is tracked by the number of National Stock Numbers (NSNs) that have passed random testing for critical and major defects/characteristics divided by the total number of NSNs tested, for materiel on contract for the current and the previous two contract years. Currently, this indicator applies to construction, electronics, industrial, and general supplies.

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Product Conformance Verification	93.0%	95.0%	95.0%

2) Improve the process of delivering logistics support

Total Asset Visibility - This initiative has been divided into a number of sub-initiatives for both Supply and Distribution. One Supply initiative is In-Storage Visibility of Retail Assets. Progress on this initiative is tracked based on a number of factors and is discussed below:

In-Storage Visibility of Retail Assets promotes the visibility of retail assets available for use in filling backorders and offsetting new procurement. This initiative has reached an Initial Operation Capability (IOC) phase with selected Navy, Army, Air Force and Marine activities. As of the end of FY 97, approximately $59M worth of retail asset redistributions from IOC sites have been accomplished at the direction of DLA Inventory Control Points (ICPs) to fill backorders and offset new procurements.

Pipeline Compression - This is a joint Supply and Distribution initiative in support of the DoD effort to reduce Logistics Response Time. This initiative measures total DoD pipeline as well as breaking it into four segments: Customer or Service Order time, Supply time, Depot time and transportation time. This initiative integrates ICP and Distribution initiatives to maximize reduction of DLA customer wait time from requisition to materiel receipt. This initiative reflects the Agency's commitment to improving customer responsiveness. It also reflects the evolving nature of DLA activity by focusing on improved customer satisfaction instead of traditional measures of inventory effectiveness such as stock availability. As of September 1997, the average response time under DLA's control for items managed by Hardware Centers was 15 days. Of these 15 days, 6 days were in Supply and the rest were in Depot and transportation. Since DLA is transitioning from a less accurate DLA measurement system to a more precise OSD standard measurement system, comparisons can not be made to prior year data.

Logistics Response Time (LRT) – LRT is the amount of time (mean days) that elapses between the date the requisition was established by requisitioner (serial date in the requisition) and the date the customer receives the ordered materiel. LRT includes Service processing, inventory control point, depot processing, and transportation components of the "pipeline" time for non-stocked items and immediate issues for stocked items. LRT (ICP Processing Time – Immediate Issues) is the amount of time (mean days) that elapses from the date a requisition was received at an inventory control point (ICP) to the date the Materiel Release Order (MRO) is transmitted to a depot/storage site for orders that have materiel on-hand.

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Logistics Response Time			
ICP Processing Time – Immediate Issues	2 Days	1 Day	1 Day

3) Empower employees

Employee empowerment initiatives continued to receive full support of DLA. These initiatives include Affirmative Action Recognition, Employee Recognition, Equal Employment Opportunity Coverage, Professional Development and Teaming. As further illustration of the agency's commitment to this vital area, DLA established a separate office dedicated to employee development. Our efforts to develop the logistics workforce into a multi-skilled and highly flexible resource are imperative with the downsizing efforts being undertaken throughout the DoD.

4) Increase readiness at reduced cost

Shift to Commercial Practices (SCP) - SCP includes Prime Vendor Contracts, Quick Response Contracts, Corporate Contracts, Customer Value Contracts, and all other long-term contracts. The SCP objective is to minimize operating and inventory investment costs using DLA leverage, and improve responsiveness to customers. A multi-faceted approach for achieving these objectives uses strategies such as direct vendor delivery, prime vendor, long-term/multi-year contracting, just-in-time delivery, and electronic commerce/electronic data interchange (EC/EDI). These contracts yield better quality, lower prices, shorter lead times and a reduced vendor base. Progress on this initiative is tracked based on a number of factors, two of which are discussed below:

Shift to Commercial Practices (SCP) as a Percent of Dollars Obligated - SCP as a percent of dollars obligated grew to 78% (including DFSC), 61% (excluding DFSC) for year-end FY97, up 72% (including DFSC) from 58% (excluding DFSC) at year-end FY96.

EC/EDI Utilization as a Percent of Contracting Actions - EC/EDI utilization measures the efficiency gained through the use of EC/EDI technology. The goal is to reach 85% utilization by 1998. EC/EDI utilization as a percent of contract actions for FY97 was 76%, up from 70% in FY96, and 67% in FY95.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

DLA began preparing financial statements in accordance with the Act in 1992 and believes the information reported continues to improve. Nevertheless, several challenges remain and are discussed in the following paragraphs. During FY 94, DLA established short- and long-term goals for creating a comprehensive financial management system, and undertook a number of initiatives to identify and assess the financial statement impact of current accounting practices. These goals and initiatives enabled DLA to establish milestones to improve financial data accuracy and reliability. DLA has worked diligently to reach these milestones during FY 95, FY 96 and FY 97, with significant progress achieved in the areas of accounts payable and receivable, property, plant and equipment and financial analysis. This process continues in FY 98.

The Federal accounting community continues to establish “Generally Accepted Accounting Principles” for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of “Generally Accepted Accounting Principles” will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

Supply is currently unable to comply with certain requirements under Federal Accounting Standards Advisory Board (FASAB) Statement Number 3 regarding the recognition of unrealized holding gains and losses upon the sale of inventory. Supply records these gains and losses when there is a change in the carrying cost. In FY 98, DLA-HQ and DFAS plan to work together to achieve a reliable and accurate solution to recognize these gains and losses at the proper time.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

Traditional fund management, prior to DWCF, did not require the calculation of depreciation on property, plant and equipment (PP&E). As a result, PP&E was not always accurately reflected in the accounting records, and through FY 94, DLA had not properly accounted for all the PP&E for which it was responsible. Significant progress has been made toward correcting this situation. In conjunction with the implementation of the Defense Property

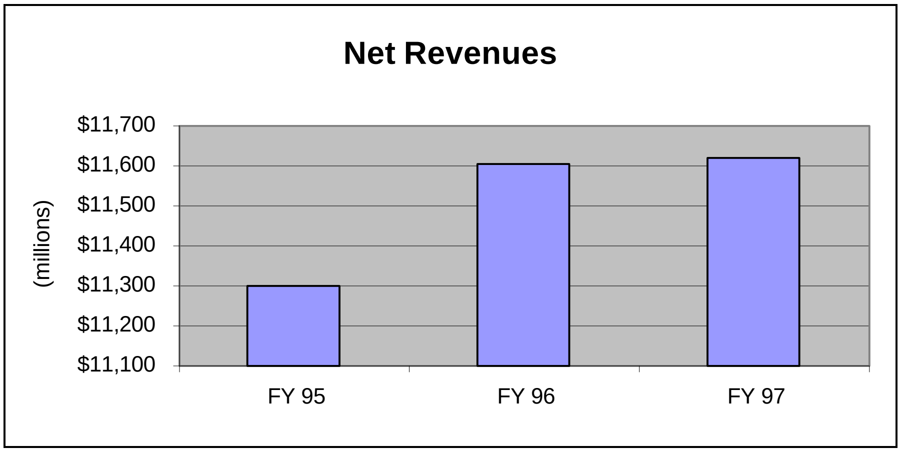
Accounting System (DPAS), all DLA field activities undertook the review and revision of their property records. Additionally, DLA began validating the records of sites with significant balances and/or discrepancies. DPAS implementation was substantially completed through the end FY 97.

Accounts Receivable and Accounts Payable include "undistributed" amounts which represent the differences between collections and disbursements on the general ledger and those which have been reported through the finance network/ACRS cash report. The Department has recognized the "undistributed" problem and is currently pursuing corrective actions. The Defense Finance and Accounting Service (DFAS) site in Columbus, OH, which supports DLA, has also recognized this problem and has assigned accounting personnel for each DLA Activity Group the responsibility of reconciling the finance network and ACRS cash figures.

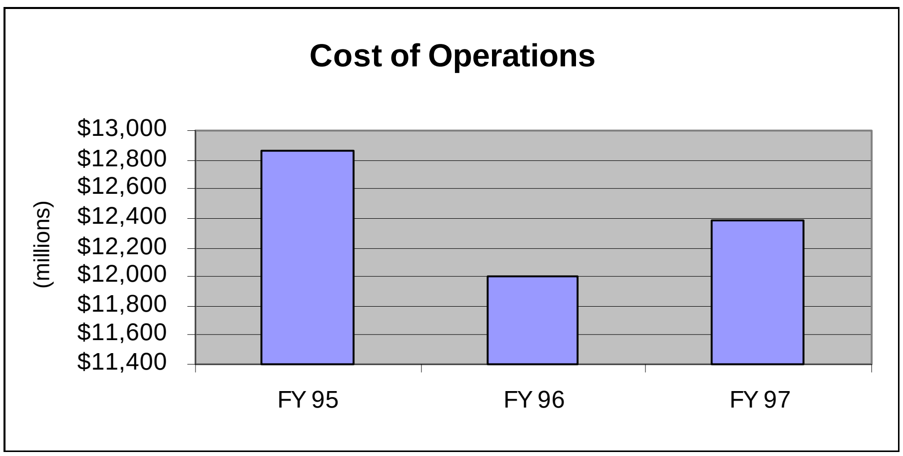
Accounts Receivable and Accounts Payable include over-aged and negative amounts that are currently under investigation for system and processing deficiencies. Significant progress has been made in resolving some of the over-aged amounts within Accounts Receivable and Accounts Payable as a result of continuing emphasis on Unmatched Disbursements and Negative Unliquidated Obligations.

Financial Performance Measures

The following two graphs and tables are presented to show financial performance trends of Net Revenues and Cost of Operations:



	FY 95	Change	FY 96	Change	FY 97
Net Revenues (Millions)	$ 11,301	+2.7%	$ 11,607	+0.1%	$ 11,622



	FY 95	Change	FY 96	Change	FY 97
Cost of Operations (Millions)	$ 12,864	–6.7%	$ 11,997	+3.3%	$ 12,391

Cost of operations increased 3.3% to $12,391 million in FY 97 from $11,997 million in FY 96. This increase is due mainly to an increase in actual costs of fuel products.

Financial performance measures provide additional information on the efficiency and effectiveness of activity group operations. The Supply financial performance measures are identified below.

Overview

Obligations per Barrel (for fuels commodity) – This measure divides total dollars obligated for fuel purchase by the total barrels of fuel obligated for procurement during the fiscal year. This measure is specifically designed to factor in the effect of the guaranteed purchase of 75 % of contract quantity clause in the standard fuel procurement contracts.

Cost per Dollar of Wholesale Sales (for non-fuels commodities) – This measure divides total cost by gross sales, defined as consumable and reparable sales plus credit returns.

Customer Price Change – The change in customer price. Expressed as a percentage, this is the difference in the price charged for an item (standard price) from one year to the next (not applicable to fuels, subsistence sale to the Defense Commissary Agency, and items not having a standard price, e.g., local purchase items). The customer price change is a measure of DLA's supply management/financial performance to its external customers.

Stock Turn Ratio – Stock turn is computed as annual sales to the average inventory value and measures the degree to which our sales are leveraged by our inventory investment. Inventory information excludes consumable item transfers and war reserve materiel. Given the dynamics of the current inventory environment with shifts toward direct vendor deliveries, just-in-time inventories, and reduced replacement rates, DLA management believes that meaningful conclusions based on simple comparisons of stock turn ratios will become harder to make. As such, Supply has not established targets under this measure.

Analysis of Financial Performance Measures

Unit cost measures for Supply are obligations per barrel for the fuels commodity and cost per unit of wholesale sales for all other commodities. Results for FY 96 and FY 97 and the FY 97 goals were:

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Fuel Obligations per Barrel	$30.2000	$30.3600	$32.5400
Non-fuel Cost per Dollar of Sales	$ 0.9077	$ 0.9800	$ 0.9000
Inventory Stock Turn			
Hardware Centers	0.39	0.45	NA
Clothing & Textiles	0.61	0.59	NA
Medical	3.76	4.67	NA
Subsistence	7.10	6.61	NA
Fuel	6.90	6.16	NA
Customer Price Change	+0.6%	-2.1%	-2.1%

In FY 97, turn rates for Hardware Centers increased despite the net capitalization of $1.0 billion of inventory (at service standard price) in FY 97 from the Military Services as part of the Consumable Item Transfer (CIT). In fact, the Hardware Centers have increased their inventory turnover rate since FY 94 each year in spite of net capitalization of more than $5.0 billion in CIT inventory from FY 94 through FY 97. The stock turn ratios for medical and subsistence inventories also increased during FY 97. The fuel inventory turn rate decreased between FY 94 and FY 97 as planned, driven by economic decisions. In FY 97, fuel sales decreased significantly in the last two months of the fiscal year, which negatively impacted its inventory turn ratio for FY 97.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

SUPPLY MANAGEMENT

PRINCIPAL STATEMENTS

Principal Statements

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$1,733	$512,163
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	372,008	314,689
(4) Interest Receivable	0	0
(5) Advances and Prepayments	22	15
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	165,197	179,786
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	176,907	197,891
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	9,824,808	9,540,719
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	511,514	131,774
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	$11,052,189	$10,877,037
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	**1997**	**1996**
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$11,052,189	$10,877,037
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$548,494	$562,832
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	135,833	161,132
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	541,449	695,125
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	4,482	2,143
(b) Annual Accrued Leave	46,255	42,543
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	2,204	1,200
c. Total Liabilities Covered by Budgetary Resources:	$1,278,717	$1,464,975

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$1,278,717	$1,464,975
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	18,150,852	23,602,663
c. Cumulative Results of Operations	(8,377,380)	(7,655,473)
d. Other	0	(6,535,128)
e. Future Funding Requirements	0	0
f. Total Net Position	$9,773,472	$9,412,062
8. Total Liabilities and Net Position	$11,052,189	$10,877,037

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	195,591	201,558
b. Intragovernmental	11,354,463	11,304,203
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	72,310	101,321
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$11,622,364	$11,607,082
EXPENSES		
9. Program or Operating Expenses (Note 23)	$2,535,115	$2,590,806
10. Cost of Goods Sold (Note 24)		
a. To the Public	159,124	156,908
b. Intragovernmental	8,852,372	8,416,483
11. Depreciation and Amortization	23,448	9,816
12. Bad Debts and Writeoffs	92	1
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	821,055	822,629
15. Total Expenses	$12,391,206	$11,996,643
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($768,842)	($389,561)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($768,842)	($389,561)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$9,412,062	$9,794,449
20. Adjustments (Note 27)	31,541	(352,981)
21. Net Position, Beginning Balance, as Restated	$9,443,603	$9,441,468
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(768,842)	(389,561)
23. Plus (Minus) Non Operating Changes (Note 28)	1,098,711	360,155
24. Net Position, Ending Balance	$9,773,472	$9,412,062

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($768,842)	($389,561)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(42,730)	169,867
4. Decrease (Increase) in Other Assets	1,489,836	928,068
5. Increase (Decrease) in Accounts Payable	(168,014)	28,428
6. Increase (Decrease) in Other Liabilities	(18,244)	(11,269)
7. Depreciation and Amortization	23,448	9,816
8. Other Unfunded Expenses	0	(48,266)
9. Other Adjustments	(270,156)	(90,070)
10. Total Adjustments	$1,014,140	$986,574
11. Net Cash Provided (Used) by Operating Activities	$245,298	$597,013
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(131,266)	(40,250)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($131,266)	($40,250)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	624,462	960,747
23. Net Appropriations	($624,462)	($960,747)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Supply Management
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	($624,462)	($960,747)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($510,430)	($403,984)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	512,163	916,147
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$1,733	$512,163

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$1,671	$679

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$1,652,069	$1,036,917

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

SUPPLY MANAGEMENT

FOOTNOTES

Footnotes

DEFENSE WORKING CAPITAL FUND SUPPLY MANAGEMENT - CONSOLIDATED NOTES TO THE PRINCIPAL STATEMENTS AS OF 30 SEPTEMBER 1997

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operation for the Defense Logistics Agency (DLA) Supply Management Activity Group, as required by the Chief Financial Officers (CFO) Act of 1990, and other appropriate legislation. These financial statements have been prepared from the accounting records of DLA Supply Management, in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01, OMB Bulletin 97-01 and supplemental Department of Defense (DoD) guidance. The accounting standards prescribed by the FASAB, the DoD Accounting Manual (DoD 7220.9-M) and the Financial Management Regulation (DoD 7000.14-R) were followed as appropriate. To the extent that guidance is not provided by one of these standards, DLA Supply Management accounts for transactions in accordance with guidance promulgated by the General Accounting Office (GAO), Office of Management and Budget (OMB), Department of Treasury, and Generally Accepted Accounting Principles.

These financial statements differ from the DLA Supply Management financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity

DLA is a Combat Support Agency of the Department of Defense under the authority, direction and control of the Under Secretary of Defense (Acquisition and Technology). DLA provides worldwide logistics support for the missions of the Military Departments and the Unified Combatant Commands under conditions of peace and war. DLA also provides logistics support to other DoD Components and certain Federal agencies, foreign governments, international organizations and others as authorized. DLA provides materiel commodities and items of supply that have been determined, through the application of approved criteria, to be appropriate for integrated management by DLA on behalf of all DoD Components, or that have been otherwise specifically assigned by appropriate authority. DLA Supply Management helps carry out this mission by procuring, managing, and providing supply items to Military Departments, other DoD Components, Federal agencies and selected foreign governments in the most effective and economical manner possible. DLA Supply Management is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5C.

Supply Management performs its operations through Inventory Control Points (ICPs) which manage materiel by commodity groups. The commodity groups are listed below:

- Clothing and Textiles
- Construction
- Electronics
- Fuels
- General
- Industrial
- Medical
- Subsistence

All direct materiel, capital investment and operating costs associated with Supply Management are recorded in the accompanying financial accounts. Additionally, the costs associated with the DLA supporting activities are included in DLA Supply Management. The supporting activities are:

- Defense Logistics Management Standards Office
- Joint Logistics Systems Center
- DLA Headquarters
- DLA Administrative Support Center
- DLA Europe Headquarters
- DLA Civilian Personnel Support Office
- DLA Pacific
- DLA Performance Standards Support Office
- DLA Operations Research & Economic Analysis Office
- DLA Logistics Service Center
- DLA Criminal Investigations Activity
- DLA Base Operation Supplies
- National Security Agency

These financial statements include approximately $24 million in indirect costs of the Agency. Beginning with FY 97, these costs were allocated to the other Activity Groups, which reimbursed Supply Management for their proportionate share. These costs were not allocated to the other Activity Groups for FY 96.

C. Budgets and Budgetary Accounting

Each allotment of this Activity Group receives an annual operating budget (AOB). Supply Management Inventory Control Point AOBs provide total cost authority in unit cost and reimbursable terms. Unit Cost Resourcing provides the operating expense/cost authority for such items as salaries, nonlabor expenses, and materiel within each activity. Cost authority or the amount "earned" depends on the actual workload times the unit cost goals. These amounts are "earned" when the ICP records a sale. Each allotment can also receive reimbursable authority for outputs/goods and services that are not contained in the unit cost goals.

Allotments may also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned rather than when collected and expenses are recognized when incurred rather than when paid. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

The “DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity” requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided. Note 29 identifies the eliminations in general terms, however, due to our inability to capture the necessary financial data, certain schedules are completed in full while others are incomplete.

E. Revenues and Other Financing Sources

Revenues and other financing sources for this Defense Working Capital Fund (DWCF) Activity Group consist of reimbursements from customers for sale of inventory and services.

F. Accounting for Intra-Governmental Activities

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, through FY 96, these financial statements did not include certain overhead costs of the Agency. Beginning with FY 97, these costs, approximately $24 million, were allocated to the other Activity Groups, which reimbursed Supply Management for their proportionate share. Additionally, DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

Finally, DLA Supply Management's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DLA Supply Management does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's account with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statement of financial position.

In accordance with guidance issued by OSD, DLA Supply Management obtains cash receipt and disbursement information from the disbursing offices, interfund transaction reports and service listings. These reports are then reconciled to the general ledger and all differences are recorded as undistributed amounts in accounts receivable and accounts payable.

Aggressive efforts have been made during the year, as part of the Problem Disbursement project required by the Office of the Secretary of Defense (Comptroller), to reduce the balance of unmatched disbursements. Unmatched disbursements have been reduced from the original baseline of $1.5 billion to $64 million as of August 31, 1997, a reduction of 96 percent since the beginning of the effort. Furthermore, we have made $100 million reductions since the close of FY96.

In May 1996, an accounting adjustment was processed to move the dollar amounts without supporting detail from GLAC 160 to GLAC 340.400, Decapitalized Undistributed Disbursements, in coordination with DLA-FOX. We also determined a cut-off date for each commodity to create a revised timeframe for GLAC 160. Therefore, any disbursements dated prior to this cut-off date which processed into the accounting system, require a similar adjustment to GLAC 160 to properly reflect the account activity for the new parameters established by the cut-off date. To that end, the stock fund commodities have made the following changes to the original amounts:

Commodity	Original FY 96 Adjustment Amount	Adjusted FY 97 Amount
Construction	21,459	5,385
Electronics	16,744	133
General	18,493	0
Industrial	9,955	0
Medical	1,985	699
Clothing & Textile	66,186	(219)
Subsistence	(79,057)	0
Fuel	(220,392)	0
Total	(164,627)	5,998

Additionally, summary obligation and expenditure transactions were recorded in the general ledger in accordance with the Office of the Secretary of Defense (Comptroller) guidance on obligating unmatched disbursements (UMDs) and negative unliquidated obligations (NULOs), dated March 31, 1994, and March 25, 1995. The guidance requires that obligations be recorded and expended for unmatched disbursements that are over 180 days old. In FY 96, DLA-HQ provided the funds to obligate unmatched disbursements that were greater than 180 days, as well as those that were 90 to 180 days old as of August 31, 1996. Fuels was not impacted by the requirement to obligate for unmatched disbursements over 180 days due to their aging of unmatched disbursements from the date the documents were received in the functional area, rather than from the transaction date. As of August 1997, Fuels has beenaging unmatched disbursements by transaction date. Also, the majority of their disbursements were by self, which are normally processed within 30 days. The obligation amounts by commodity in FY 96 were as follows:

Footnotes

Commodity	>180 days	90-180 days
Construction	441	1,209
Electronics	48	226
General	2,068	1,082
Industrial	2,221	403
Medical	2,943	1,155
Clothing & Textile	14,096	10,124
Total	21,817	14,199

During FY 97, the commodities were able to use the previous fiscal year obligating amount for transactions that needed to be obligated and expensed – those unmatched transactions that were more than 180 days old. The following depicts the activity by commodity:

Commodity	Obligated/ Expended	FY 96/FY 97 Cleared Expenditures
Construction	1,043	2,570
Electronics	0	275
General	0	2,820
Industrial	696	3,199
Medical	14	3,290
Clothing & Textile	17,403	26,194
Total	19,156	38,348

Subsistence was handled differently than the other commodities regarding the initial FY 96 obligation and expenditure. The estimated amount of obligation money provided was $2,266,570. The expenditure was not processed in 1996 and when input in 1997 was adjusted to exclude resolved transactions. The amount initially expended was $1,087,366 with the remainder, $1,179,204 available for expenditure. Subsequently an additional $176,777 was expended for FY 97 requirements. The total amount of expenditures subsequently cleared was $309,103, thus freeing up money for future expenditures. The following schedule depicts how we arrived at an "obligation remaining" figure. The figures below are shown in whole dollars.

Obligated FY 96	$ 2,266,570
Obligations Expended FY 96	(1,087,366)
Obligations Expended FY 97	(176,777)
Sub-total	$ 1,002,427
FY 96/FY 97 Cleared Expenditures	309,103
Total Obligations Remaining	**$ 1,311,530**

H. Foreign Currency

Gains and losses from foreign currency transactions are not recognized in the statement of operations. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. There were no foreign currency transaction adjustments.

I. Accounts Receivable

Accounts receivable include accounts, refunds and claims receivable. The accounting systems classify these receivables as: “from Government and Public sources.” An allowance account for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. However, the materiel accounting systems do not contain logic for the recognition of losses due to uncollectible amounts. The Supply Management Activity Group, Materiel Portion, also believes that the allowance account for uncollectible accounts is immaterial to the total receivable balance. Government receivables, which represent 91% of the receivables are 100% collectible, therefore leaving public receivables at 9% representation. In conjunction with the immateriality, the Supply Management Activity Group has strict collection procedures in place to collect these public monies in an efficient and timely manner.

J. Loans Receivable

DLA Supply Management does not operate on a loan basis.

K. Inventories

Inventories are valued at Latest Acquisition Cost (LAC). The LAC method provides that the last representative invoice price shall be applied to all like units held including units acquired through donation, non-monetary exchange, and return from end use or reutilization. The process of valuing inventory in this manner has been consistent for many years.

The difference between historical cost and the inventory valued at LAC is reported as a component of cost of goods sold in the Statement of Operations. Official accounting guidance requires this amount to be recognized upon the sale or disposal of materiel, rather than as the price variance occurs. Currently, DLA Supply Management's accounting systems are unable to comply with this accounting guidance and the holding gains and losses are recognized when the price change occurs. In FY 98, DLA-HQ and DFAS plan to work together to achieve a reliable and accurate solution in recognizing these gains and losses at the proper time.

Potential Reutilization Inventory (previously called potential excess inventory) are inventory items in excess of approved force acquisition objectives and approved force retention stock objectives. These assets are written down, using DoD guidance, to a percentage of LAC. These adjustments are used for consolidated reporting purposes only and are not included on the individual commodity's general ledger. DLA Supply Management's accounting systems do not recognize holding period gains and losses at the proper time, therefore the method used to report Potential Reutilization Inventory is not compliant with official accounting guidance. DLA Supply Management does not value excess inventory at net realizable value (2.5%). It is written off in total and expensed as well. The change in the write down from year to year is reported as "other expense" in the Statement of Operations. This situation will also be addressed by DLA-HQ and DFAS for FY 98.

Logistic transfer items are overvalued when standard prices are used as the recorded value. This situation is the result of NSN transfers to DLA from the Services for which either buy histories are unavailable or on which no recent buys have occurred.

L. Investments in U.S. Government Securities

DLA Supply Management does not invest in government securities.

M. Property and Equipment

Supply capitalizes equipment according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, and greater than or equal to $50,000 for FY 95, greater than or equal to $100,000 for FY 96 and FY 97.

- Estimated useful life is two years or more.

Capital assets in DLA Supply Management are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all costs necessary to put the asset in place and in to the form in which it will be used. The capital assets for this Activity Group include such items as ADP equipment, materiel handling systems and software.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity. This property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties, in all likelihood, would be fully depreciated, resulting in no impact to these financial statements.

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment.

Routine maintenance and repair costs are expensed when incurred while depreciation for property, plant and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges

Payments made to contractors or suppliers to finance production already accomplished or pursuant to production orders are recorded as progress payments at the time of prepayment. Expenses are recognized when the goods and/or services are received.

O. Leases

DLA Supply Management is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

Additionally, DLA Supply Management may act as host to tenant activities on certain installations. These amounts are billed under Interagency Support Agreements and generally have only included the fees for services provided. Revenue is recognized when the amounts are received from the tenant activity.

P. Contingencies

DLA Supply Management may be a party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect DLA Supply Management's operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Unused annual leave is reported as a liability covered by budgetary resources and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year the balance in the accrued annual leave account is adjusted to reflect changes to those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity

Equity consists of invested capital, capitalized and decapitalized inventories, cumulative results of operations and other equity balances.

S. Aircraft/Ship Crashes

DLA Supply Management does not employ aircraft or ships.

T. Treaties For Use of Foreign Bases

DLA Supply Management does not enter into treaties.

U. Comparative Data

These financial statements contain data for FY 96 and FY 97. This comparative data is presented to provide an understanding of changes in the financial position and operations of the DLA Supply Management Activity Group. The expense portion of the income statement is not comparable in terms of financial data make-up. Inventory loss due to shrinkage and theft was used in FY 96 to calculate cost of goods sold, however this fiscal year, it is being shown as other expense.

Note 2. Fund Balances with Treasury

A. Working Capital Fund (USD (C)) and all other funds and accounts

Not Applicable.

B. Working Capital Fund Activities Below USD(C) Level

Entity Assets:

	1997	1996
Beginning Balance	$512,163	$916,147
Transfers of Cash to Others	(624,462)	(960,747)
Transfers of Cash from Others	0	0
Funds Collected	11,485,947	11,470,640
Funds Disbursed	(11,371,915)	(10,913,877)
Ending Balance	$1,733	$512,163

C. All Funds and Accounts

Not Applicable.

D. Other Information

The Fund Balance with Treasury consists of collections and disbursements reported to the treasury by disbursing offices, interfund transaction and service reports. These reports are then reconciled to the general ledger and all differences are recorded as undistributed amounts in accounts receivable and accounts payable.

Other cash transactions include Office of the Under Secretary of Defense (OUSD) mandated cash transfers to the Joint Logistics Systems Command (JLSC) of $45.8 million and to the Military Services for $66.5 million. The $66.5 million dollar transfer pertains to consumable item transfers (CIT) and occurs at a level beyond the scope of DFAS-CO's accounting records. This transfer cannot be journalized and input into DLA Supply Management's accounting systems, therefore, for presentation purposes, the CIT transfer is included in the Supply Management's consolidated figures only and not the individual financial statements for Operations (DBMS) and Materiel (Stock Fund).

Note 3. Cash, Foreign Currency and Other Monetary Assets

This is not applicable to the DLA Supply Management Activity Group.

Note 4. Investments

DLA Supply Management does not invest in securities.

Note 5. Accounts Receivable

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	372,008	0	N/A	372,008
Governmental	165,288	(91)	N/A	165,197
B. Non-Entity Receivables:				
Intragovernmental	0	0	N/A	0
Governmental	0	0	N/A	0
Total	537,296	(91)	N/A	537,205

C. Other Information

Accounts receivable include accounts, refunds and claims receivable. The accounting systems classify these receivables as: “from Government and Public sources.” An allowance account for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. However, the materiel accounting systems do not contain logic for the recognition of losses due to uncollectible amounts. The Supply Management Activity Group, Materiel Portion, also believes that the allowance account for uncollectible accounts is immaterial to the total receivable balance. Government receivables, which represent 91% of the receivables are 100% collectible, therefore leaving public receivables at 9% representation. In conjunction with the immateriality, the Supply Management Activity Group has strict collection procedures in place to collect these public monies in an efficient and timely manner.

The materiel portion accounting systems do not contain logic to recognize refunds receivable. Therefore for tracking purposes, all refunds receivable due from contractors are established in GLAC 155.003 for SAMMS, in GLAC 119.900 for Fuels, and in GLAC 155.100 and 155.300 for DISMS. The total amount of refunds receivable included in the governmental/public portion is $ 55.8 million.

The difference between cash collections in the military listings and the DBMS general ledger, amount to $26.1 million dollars. This amount is recorded as a decrease in accounts receivable.

In FY 97, the Heavy Equipment Procurement Program (HEPP) erroneously recorded $68.4 million in reimbursable earnings and accounts receivable. Therefore, the figures have been adjusted to reflect the correct sales and receivable amount.

Note 6. Other Assets

DLA Supply Management does not categorize assets as other.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

DLA Supply Management does not operate loan or loan guarantee programs.

Note 8. Inventory, Net

	(1) Inventory Amount	(2) Allowance For Losses	(3) Inventory, Net	(4) Valuation Method
A. Inventory Categories				
(1) Held for Current Sale	9,939,942	0	9,939,942	LAC
(2) Held in Reserve for Future Sale / War Reserve Materiel	1,588,372	0	1,588,372	LAC
(3) Excess, Obsolete and Unserviceable	(1,811,944)	0	(1,811,944)	% of LAC
(4) Held For Repair	108,438	0	108,438	LAC
Total	9,824,808	0	9,824,808	

B. Restrictions on Inventory Use, Sale, or Disposition:

1. Inventory Held in Reserve for Future Sale - This category includes inventory held for research or reclassification. These inventory units are held until final disposition and are not available for immediate sale.

2. War Reserve Materiel - War Reserve Materiel are considered restricted. These materiel are used in the event of a war or national emergency. The commodities that have War Reserve Materiel are Fuels and Subsistence. These totals are included in their respective trial balances and are shown on line 1.d. Inventory - Net. They amount to $1.4 billion.

Footnotes

C. Other Information:

1. Inventory Held for Sale - This category of inventory includes most supply system materiel that is in an issuable condition. This category also includes inventory intransit. These are inventories intransit from commercial and government suppliers. General ledger accounts are used to record the initial acceptance of inventory items when title has passed but the items have not been received and accepted into inventory.

2. Excess, Obsolete and Unserviceable - This category consists of items that are determined to be beyond economic and contingency retention stock levels and, as a result, reported as potential reutilization/disposal materiel. This category also includes inventory that is no longer needed due to changes in technology, laws, customs or operations. Unserviceable items are items not expected to survive repair after a technical evaluation at a maintenance activity is performed and also includes damaged inventory that is not economical to repair.

3. Inventory Held For Repair - These are inventory items that are not in an issuable condition (but not beyond economical repair) and are awaiting repair before they are eligible for sale.

4. Inventories are valued at LAC (LAC). The LAC method provides that the last representative invoice price shall be applied to all like units held including units acquired through donation, non monetary exchange and return from end use or reutilization. The process of valuing inventory in this manner has been consistent for many years. The difference between historical cost and the inventory valued at LAC is reported as a component of cost of goods sold in the Statement of Operations. Official accounting guidance requires this amount to be recognized upon the sale or disposal of materiel, rather than as the price variance occurs. Currently, DLA Supply Management's accounting systems are unable to comply with this accounting guidance and the holding gains and losses are recognized when the price change occurs. In FY98, DLA-HQ and DFAS plan to work together to achieve a reliable and accurate solution in recognizing these gains and losses at the proper time.

5. NSA and the BOS activity's inventory is included on line 1.d. of the Chief Financial Officer's (CFO) Statement. The BOS activities and NSA do not have a writedown for potential reutilization.

6. Potential Reutilization Inventory (previously called potential excess inventory) are inventory items in excess of approved force acquisition objectives and approved force retention stock objectives. These assets are written down, using DoD guidance, to a percentage of LAC. These adjustments are used for consolidated reporting purposes only and are not included on the individual commodity's general ledger. DLA Supply Management's accounting systems do not recognize holding period gains and losses at the proper time, therefore the method used to report Potential Reutilization Inventory is not compliant with official accounting guidance. DLA Supply Management does not value excess inventory at net realizable value (2.5%). It is written

off in total and expensed as well. The change in the write down from year to year is reported as "other expense" in the Statement of Operations. This situation will also be addressed by DLA-HQ and DFAS for FY 98.

7. Condition Code L inventory are items being held for research or reclassification. As a result of this inventory being held until final disposition, this inventory is not available for immediate sale and will be classified as reserve for future sale.

8. The new Depot Distribution Standard System (DSS) implemented during FY 96 impacts all inventory related gain and loss accounts significantly. This new inventory accounting system replaced the National Inventory Record (NIR) as the official inventory record. The depots control the reliability of the inventory figures and adjust the trial balance figures as needed to agree with their records.

9. Logistic transfer items are overvalued when standard prices are used as the recorded value. This situation is the result of NSN transfers to DLA from the Services for which either buy histories are unavailable or on which no recent buys have occurred.

Note 9. Work In Process

DLA Supply Management does not have work in process.

Note 10. Operating Materials and Supplies (OM&S), Net

This Activity Group does not categorize any materiel as operating materiels and supplies.

Note 11. Stockpile Materiel

This category of inventory is reserved for use exclusively by the National Defense Stockpile Transaction Fund within the Department of Defense.

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Note 12. Seized Property

DLA Supply Management does not have any seized property.

Note 13. Forfeited Property, Net

DLA Supply Management does not have any forfeited property.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

DLA Supply Management does not have any goods held under price support.

Footnotes

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets:	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land:	-	-	$0	$0	$0
B. Structures, Facilities, Leasehold Improvements:	SL	20	318,519	107,813	210,706
C. Military Equipment:	-	-	0	0	0
D. ADP Software:	SL	5	12,422	11,575	847
E. Equipment:	SL	10	308,074	45,677	262,397
F. Assets under Capital Lease:	-	-	0	0	0
G. Other:	-	-	495	0	495
H. Natural Resources:	-	-	0	0	0
I. Construction in Progress:	-	-	37,069	0	37,069
			$676,579	$165,065	
Total:					$511,514

* Key:

Depreciation Methods	Ranges of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digits	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other (describe)	

Capital assets in DLA Supply Management are accounted for in the Defense Property Accounting System (DPAS) of Defense Business Management System (DBMS). Traditional fund management, prior to DWCF (formely known as DBOF), did not require the calculation of depreciation on property, plant and equipment. As a result, property, plant and equipment was not always reflected on the accounting records.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Note 16. Debt

DLA Supply Management does not borrow money under special financing authorities.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:	Non-Current Liability	Current Liability	Total
1. Intragovermental			
(1) Reserve For Equity For Others	0	135,833	135,833
Total	0	135,833	135,833
2. Governmental			
(2) Other Liabilities	0	2,204	2,204
Total	0	2,204	2,204

B. Other Information:

GLACs included in calculation:

Intragovernmental

GLAC 240 - Reserve of Equity of Others (Except ICLS)
GLAC 250 - Reserve for Equity of Others (ICLS)

Governmental

GLAC 260 - Other Liabilities

Intragovernmental - GLACs 240 and 250 are accounts set up to show the amount of cash transferred to this Activity Group by participating civilian agencies or Military Services.

Governmental - GLAC 260 is maintained to temporarily classify liabilities until specific account distribution or liquidation is determined.

C. Other Liabilities Not Covered by Budgetary Resources:

Not applicable.

Note 18. Leases

A. Entity as Lessee

Operating Leases

DLA Supply Management is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities.

DLA Supply Management generally leases facilities and equipment from year to year under Interservice Support Agreements. Although these agreements may extend for longer than a year, the majority can be renegotiated, and thus, they are not considered noncancellable. Rental expense associated with these agreements are expensed when paid.

B. Entity as Lessor

DLA Supply Management may act as a host to tenant activities on certain installations. Amounts are billed under Interservice Support Agreements and generally have included only the fees for services provided.

C. Other Information:

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

DLA Supply Management does not administer pension programs.

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	0	0	0	0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	18,150,852	0	0	18,150,852
C. Cumulative Results of Operations	(8,377,380)	0	0	(8,377,380)
D. Other	0	0	0	0
E. Future Funding Requirements	0	0	0	0
F. Total	9,773,472	0	0	9,773,472

G. Other Information:

1. DLA Supply Management does not have unexpended appropriations.

2. Invested Capital includes GLAC 320 (Capitalized Assets) for the Operations portion of Supply Management. The Materiel portion includes the following:

Invested Capital: GLACs 320 and 323 involve inventory capitalizations and decapitalizations. Included along with these two accounts are GLACs 340 and 345. GLAC 340 consists of a Pre-DBOF equity adjustment in accordance with the Senate Appropriation Committee Report #102-48, dated Sept. 17, 1992. This write-off of equity accounts prior to FY 92 is for the establishment of the Defense Business Operations Fund. Also included in GLAC 340 is the accounting adjustment processed to remove the unsupported dollar amounts from the stock fund undistributed disbursement balance. A detailed definition is included in Note #1, Part G. Included in GLAC 345 are the values of all liabilities, including accounts payable and undistributed collections, capitalized or decapitalized by the Activity Group.

3. Cumulative Results of Operations: This amount consists of the cumulative gain or loss in operations since the inception of DBOF. It also includes the total amount of profit/loss for the current fiscal year and the writedown of inventory due to Potential Reutilization.

4. Other: The operations portion includes cash transferred as directed by DFAS-HQ. The materiel portion includes GLACs 301, 302, 305, 360, 361, 362 and 363. GLACs 301, 302 and 305 are associated with cash being issued, received and transferred, respectively. GLACs

360, 361, 362 and 363 include BOS activity interoffice receivables and payables owed to Home Office BOS.

5. DLA Supply Management does not have future funding requirements.

Note 21. Taxes

This is not applicable to this Activity Group.

Note 22. Other Revenues and Financing Sources

	1997	1996
A. Other Revenues and Financing Sources:		
(1) GLAC 480 - Other	69,528	101,321
(2) GLAC 560 - Other	2,782	0
Total	72,310	101,321

B. Other Information:

GLAC 480 is maintained to show the total amount of income accrued or the cash collections for which specific general ledger accounts have not been provided.

	1997	1996
480.100 Claims Established	18,736	52,538
480.200 Recoveries Conus Port Loading Ovsea.	0	5
480.300 Recoveries Ocean Transportation Cost Ovsea.	6	1
480.900 Miscellaneous Income	50,786	48,777
Total	69,528	101,321

GLAC 560 is maintained to show the gain or loss on the disposal of capital assets.

Note 23. Program or Operating Expenses

		1997	1996
A.	**Operating Expenses by Object Classification**:		
(1)	Personal Services and Benefits	$638,449	$649,774
(2)	Travel and Transportation	96,236	97,253
(3)	Rental, Communication and Utilities	39,731	43,408
(4)	Printing and Reproduction	12,690	11,401
(5)	Contractual Services	936,743	887,757
(6)	Supplies and Materials	33,066	19,942
(7)	Equipment not Capitalized	92,361	71,370
(8)	Grants, Subsidies and Contributions	203	207
(9)	Insurance Claims and Indemnities	0	0
(10)	Other (describe):		
	(a) Interest	1,671	679
	(b) Transportation - Materiel	292,052	375,529
	(c) Repair Expense - Materiel	12,934	17,781
	(d) Other Expenses - Materiel	378,979	415,705
(11)	Total Expenses by Object Class	$2,535,115	$2,590,806

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

1. Part 10(a) - The interest amount represents interest paid for late payments.

2. Part 10(b) - Transportation Expense (GLAC 540 w/o 6XX, 900) excluding creditable and sales returns as well as FMS, is maintained to show the actual or estimated amount of authorized transportation expense on procurement and delivery to customers of the stock fund materiel.

3. Part 10(c) - Repair Expense (GLAC 550) is maintained to show the amount of expense incurred in the repair and/or assembly/ disassembly of stock fund materiel.

4. Part 10(d) - Other Expense (GLAC 590) is maintained to show expenses or losses for which specific general ledger accounts have not been provided:

	1997	1996
590.100 Contract Termination Costs	79,539	94,348
590.101 Desert Shield/Storm Cont. Term Cost	303	153
590.300 Testing Services	(715)	4,300
590.400 Maintenance Expense and Services	291,305	307,850
590.500 Reverse Engineering Cost	54	56
590.600 Technical Drawing and Data Costs	3,425	3,156
590.700 Testing Costs	5,068	5,842
Total	378,979	415,705

Note 24. Cost of Goods and Services Sold

A. Cost of Services Sold:

Not Applicable.

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

	1997	1996
(1) Beginning Inventory - L.A.C.	9,540,719	9,430,043
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	0	0
(3) Plus : Purchases at Cost	8,728,499	8,504,916
(4) Plus: Customer Returns - Credit Given		
(5) Plus: DLR Exchange Credits		
(6) Less: Inventory Losses Realized	(820,995)	(822,630)
(7) Less: Ending Inventory - L.A.C.	(9,824,808)	(9,540,719)
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	0	0
(9) Less: Equity Transfers of Inventory to Others	(25,995)	(36,721)
(10) Plus: Equity Transfers of Inventory from Others	1,414,076	1,038,502
(11) Equals: Cost of Goods Sold from Inventory	9,011,496	8,573,391

C. Other Information:

The costs of inventory/goods that are sold are not specifically identified to the buyer (Government or Public). However, sales are identified to the buyer, therefore a sales allocation percentage is applied to the total cost of goods sold to report the costs as Intragovernmental or Public. The sales allocation percentage for the Public sales was approximately two percent. FY 96 figures have not been restated to be consistent and comparable with FY 97 due to time constraints and unavailable resources. Inventory loss due to shrinkage and theft was used in FY 96 to calculate cost of goods sold, however, for FY 97, it is being shown as "Other Expense." Official accounting guidance requires that the difference between historical cost and latest acquisition cost be recognized upon the sale or disposal of materiel. DLA Supply Management's accounting systems are unable to comply with this accounting guidance and currently recognize holding period gains and losses when a price change occurs. This difference between historical cost and latest acquisition cost is reported as a component of cost of goods sold. In FY 98, DLA-HQ and DFAS plan to work together to achieve a reliable and accurate solution in recognizing these gains and losses at the proper time.

Consistency is of prime importance to the comparability of the entity's financial statements between periods. Inventory loss due to shrinkage and theft, which is maintained to show the reduction in inventory, in accordance with survey reports authorizing the write-off of materiel due to shrinkage, theft, contamination, deterioration, testing, inspection, sampling, vandalism, freezing and evaporation was used in calculating cost of goods sold last fiscal year (FY 96). However this figure is being shown as other expense for FY 97 and therefore, in regard to consistency, FY 96 figures should be revised for cost of goods sold. The figure for cost of goods sold for FY 96 should be restated to be consistent and comparable with FY 97 to $156,506 for the public and $8,394,936 for intragovernmental.

Note 25. Other Expenses

	1997	1996
A. Other Expense:		
(1) Potential Reutilization	98,538	(251,883)
(2) Transfers to Property Disposal	711,385	1,074,512
(3) Loss Due to Shrinkage, Theft	11,072	0
(4) Real Property Maintenance	60	0
Total	821,055	822,629

B. Other Information:

1. Potential Reutilization:

This represents the net change in the amount of inventory that is determined to be in excess of approved force acquisition objectives and approved force retention stock objectives as determined at the end of the each fiscal year.

	1997	1996
Excess inventory @ Sept. 30, 1996 and 1995	1,713,406	1,965,289
Excess inventory @ Sept. 30, 1997 and 1996	1,811,944	1,713,406
Net Change	98,538	(251,883)

Favorable = ( )

2. Transfers to Property Disposal

This account is maintained to show the value of excess and surplus materiel transferred to property disposal offices for disposal action.

3. Inventory Loss Due to Shrinkage, Theft

This account is maintained to show the reduction in inventory, in accordance with survey reports authorizing the write-off of materiel due to shrinkage, theft, contamination, deterioration, testing, inspection, sampling, vandalism, freezing and evaporation. Consistency is of prime importance to the comparability of the entity's financial statements between periods. This account was used in calculating cost of goods sold last fiscal year (FY 96), therefore, in terms of consistency, FY 96 figures should be revised. The figure for other expense (FY 96) should be restated to be consistent and comparable with FY 97 to $844,578 instead of $822,629.

Note 26. Extraordinary Items

This Activity Group does not have any unusual or infrequent material items.

Note 27. Prior Period Adjustments

	1997	1996
A. Prior Period Adjustments:		
(1) Subsistence - Transportation	0	(19,511)
(2) Fuels - Congress. Mandated Refund	0	(137,600)
(3) JLSC Transfer	0	(46,720)
(4) Prior Period Unfunded	0	(66,811)
(5) Adjustment to Capitalized Assets	0	(82,339)
(6) DLA PAC	5,924	0
(7) Other	25,617	0
Total	31,541	(352,981)

B. Other Information:

FY 97:

(6) The DLA PAC transfer represents cash transfers from Activity Group 5N to 5C.

(7) These are operational expense adjustments that can be identified with and are directly related to prior periods. These figures were not reasonably estimable as of last fiscal year.

FY 96:

(1) The Fuels commodity made an accounting adjustment in FY 96 that pertained to a Congressionally mandated refund to the Military Services for FY 95. This refund was directed to be distributed during FY 95, however, only a small portion of the refund was accomplished. Therefore, the remaining portion was processed during FY 96 instead of FY 95. The amount of the prior period adjustment was $137.6 million.

(2) An audit was performed to verify that the FY 95 transportation transactions were recorded in the Subsistence commodity. An additional $19.5 million was found to be excluded from the FY 95 balance. These expenses were posted to the general ledger in FY 96. Therefore, an adjustment was necessary to report the correct financial data for FY 96.

(3) The JLSC Transfer represents cash transfers from DLA to JLSC as mandated by DFAS-HQ.

(4) The Unfunded Depreciation Expense from RPM was incurred in 1995.

(5) Depreciation expense resulted in adjustments to the Plant Property Records as DPAS records were being adjusted.

Note 28. Non-Operating Changes - (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Cash Transfer - Operations	1,331,925	1,474,910
(2) Donations Received	263,988	35,136
(3) Other Increases Cash and Consumable Items(Net)	1,402,985	1,285,766
(4) Other Increase : DLA PAC	0	1,041
Total	2,998,898	2,796,853

	1997	1996
B. Decreases		
(1) Transfers-Out:		
(a) Cash Transfer - Materiel	1,844,088	2,392,098
(b) Cash Transfer - Operations	56,099	44,600
(2) Donated Capital	0	0
(3) Other Decreases: DLA PAC	0	0
Total	1,900,187	2,436,698
C. Net Non-Operating Changes (Transfers)	1,098,711	360,155

D. Other Information:

Other Increases:

These changes in inventory, due to Consumable Item Transfers from the services, consist of GLACs 320, 323, 325, 330, 340 and 345. These GLAC definitions are included in Note #20.

Cash Transfer:

This was the annual year-end cash transfer adjustment to reflect DoD policy.

Note 29. Intrafund Eliminations

The "DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided. Note 29 will identify the eliminations in general terms. However, due to our inability to capture the necessary financial data, certain schedules will be completed in full as others will be incomplete. There are two schedules located below to break-out the eliminating entries for Supply Management. These are the materiel and operations portion. Due to the many different accounting systems and methods being used to gather this information, leaving the schedules separated will provide the reader with a greater benefit.

Supply Management, MATERIEL for
September 30, 1997

	REIMB	COLUMN A	COLUMN B	COLUMN C	COLUMN D
SCHEDULE A	Not Applicable				
SCHEDULE B	Source Code	Accts Rec.	Revenue	Unearned Revenue	Collections
SELLING ACTIVITY:					
SUPPLY MANAGEMENT		42,730	33,032	0	32,476
TOTAL		**42,730**	**33,032**	**0**	**32,476**
CUSTOMER ACTIVITY:		Accts Pay	Expenses	Advances	Disbursements
O & M DLA		7,853	27,610	0	25,161
DEFENSE STOCK FUND		34,877	5,422	0	7,315
TOTAL		**42,730**	**33,032**	**0**	**32,476**

Footnotes

SCHEDULE C

	REIMB	COLUMN A	COLUMN B	COLUMN C	COLUMN D
	Source Code	Accts Rec	Revenue	Unearned Revenue	Collections
SELLING ACTIVITY:					
DLA WCF		370,123	10,668,302	0	10,686,117
TOTAL		**370,123**	**10,668,302**	**0**	**10,686,117**
		Accts Pay	Expenses	Advances	Disbursements
CUSTOMER ACTIVITY:					
DEPT OF ARMY		108,287	2,260,365	0	2,266,971
DEPT OF NAVY		108,892	3,825,753	0	3,850,696
DEPT OF THE AIR FORCE		107,738	4,235,659	0	4,228,401
DEFENSE INDUSTRIAL FUND		0	1	0	1
U S ARMY CORP OF ENGINEERS		4,716	8,980	0	6,836
COAST GUARD		17,950	70,595	0	72,993
OTHER DoD AGENCIES		8,103	13,171	0	14,151
COMMISSARY RESALE		14,437	253,778	0	246,068
TOTAL		**370,123**	**10,668,302**	**0**	**10,686,117**

SCHEDULE D

	REIMB	COLUMN A	COLUMN B	COLUMN C	COLUMN D
	Source Code	Accts Rec	Revenue	Unearned Revenue	Collections
SELLING ACTIVITY :					
DEFENSE WORKING CAPITAL FUND		75,287	146,149	0	147,062
TOTAL		**75,287**	**146,149**	**0**	**147,062**

	Accts Pay	Expenses	Advances	Disbursements
CUSTOMER ACTIVITY:				
DEFENSE SECURITY ASSISTANCE	0	0	0	0
GENERAL SERVICES ADMIN.	3,006	5,616	0	5,582
AGRICULTURE	35,441	23,695	0	21,787
INTERIOR	5,781	2,255	0	992
NASA	4,312	17,595	0	17,509
STATE	331	349	0	525
TRANSPORTATION	2,353	10,005	0	9,956
TREASURY	335	1,698	0	1,741
VETERANS AFFAIRS	2,805	4,080	0	4,220
ADVANCES	0	0	0	0
ALL OTHER GOVERNMENT AGENCIES	20,923	80,856	0	84,750
TOTAL	**75,287**	**146,149**	**0**	**147,062**
MATERIEL GRAND TOTAL	**488,140**	**10,847,483**	**0**	**10,865,655**

Supply Management, OPERATIONS for September 30, 1997

Schedule A: Not Applicable

Schedule B: ELIMINATING ENTRIES

Selling Activity:	**COLUMN A**	**COLUMN B**	**COLUMN C**	**COLUMN D**
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Defense Logistics Agency	127,639	236,996	0	165,843
TOTAL	**127,639**	**236,996**	**0**	**165,843**

Footnotes

Customer Activity:

(SRC/CD)		COLUMN A Accounts Payable	COLUMN B Expenses	COLUMN C Advances	COLUMN D Disbursements
100	Intra DLA Support	16,408	26,126	0	29,319
414	DLA (Oth than 418) Btwn DLA	66,036	125,155	0	80,995
418	Intra-DLA (Def Stock Fd or Indus Fd)	45,195	85,715	0	55,529
	TOTAL	**127,639**	**236,996**	**0**	**165,843**

Schedule C: **ELIMINATING ENTRIES**

Selling Activity:

	COLUMN A Accounts Receivable	COLUMN B Revenue	COLUMN C Unearned Revenue	COLUMN D Collections
Defense Logistics Agency	134,249	266,569	0	220,942
TOTAL	**134,249**	**266,569**	**0**	**220,942**

Customer Activity:

(SRC/CD)		COLUMN A Accounts Payable	COLUMN B Expenses	COLUMN C Advances	COLUMN D Disbursements
411	Navy, Marine Corps	36,242	68,774	0	44,617
412	Army	27,952	53,030	0	34,308
416	Air Force	22,741	43,175	0	27,941
417	Other Defense Agencies	21,255	101,590	0	110,298
	Undistributed	26,059	0	0	3,778
	TOTAL	**134,249**	**266,569**	**0**	**220,942**

Schedule D: ELIMINATING ENTRIES

Selling Activity:	COLUMN A Accounts Receivable	COLUMN B Revenue	COLUMN C Unearned Revenue	COLUMN D Collections
Defense Logistics Agency	3,096	3,415	0	4,935
TOTAL	**3,096**	**3,415**	**0**	**4,935**

Customer Activity:		COLUMN A Accounts Payable	COLUMN B Expenses	COLUMN C Advances	COLUMN D Disbursements
(SRC/CD)					
311	US Postal Service	33	72	0	85
612	Materiel & Sev for FMS	100	361	0	371
616	Quality Assur for FMS	(1)	(3)	0	(3)
811	GSA	(47)	(60)	0	(72)
812	NASA	27	27	0	40
813	DOE	71	74	0	108
815	Veterans Administration	30	32	0	45
816	Coast Guard	504	508	0	762
817	Dept of Agriculture	50	51	0	76
818	Dept of Educ & Dept of Health	3	5	0	5
820	Dept of Transportation	27	29	0	40
822	All Others	2,299	2,319	0	3,478
	TOTAL	**3,096**	**3,415**	**0**	**4,935**
	OPERATIONS GRAND TOTAL	**264,984**	**506,980**	**0**	**391,720**

Other Information:

Earnings were given at a detail level, thus allowing DFAS-CO to show expenses at the lowest level as displayed above. However, accounts receivable and collections are not reflected in the trial balance using the same detail level code, therefore, accounts payable and disbursements has to be computed using a percentage of earnings in order to be shown at the same activity level as earnings.

Note 30. Contingencies

The DLA Supply Management Activity Group does not have any existing conditions or situations involving uncertainty as to a possible gain or loss dependent upon future events.

Note 31. Other Disclosures

A. Accounts Payable

Materiel

As presented in the statement of Financial Position, accounts payable includes payables to governmental and non-governmental entities. In prior financial statements (FY 93 and prior), undistributed disbursements were netted against governmental payables for statement purposes only. In retrospect, this procedure has been changed. This change is to allocate undistributed disbursements on a percentage basis against accounts payable as a whole. This procedure has been used since FY 94.

	1997		1996	
Accounts Payable:				
GLAC 200 - Governmental	484,191	37%	536,733	36%
GLAC 201- Other	816,821	63%	956,936	64%
Total	1,301,012	100%	1,493,669	100%
Undistributed Disbursements:				
GLAC 160	(830,192)		(869,086)	
Total Accounts Payable	470,820		624,583	

Statement of Financial Condition: Using Percentage Allocation

	1997	1996
Accounts Payable for Federal Entities: (Line 4.A(1))	177,020	223,862
Accounts Payable for Non-Federal Entities: (Line 4.B(1))	293,800	400,721
Total	470,820	624,583

Operations

Operations accounts payable are identified in GLACs 210.1 (Public), 210.2 (Federal) and adjusted by undistributed disbursements.

	1997	1996
Governmental:		
210.1	$233,523	$254,730
Intragovernmental:		
210.2	344,872	334,653
DLA Pacific		
Governmental	0	1,607
Intragovernmental	0	4,317
Total Accounts Payable:	$578,395	$595,307
Undistributed Cash	31,200	40,125
Adjustments	9,528	(2,058)
Total:	40,728	38,067
Reported Payables Total	$619,123	$633,374

Statement of Financial Condition:

	1997	1996
Accounts Payable for Federal Entities: (Line 4.A(1))	371,474	338,970
Accounts Payable for Non-Federal Entities: (Line 4.B(1))	247,649	294,404
Total	619,123	633,374

In prior years, DLA directed DFAS-Columbus to include the financial data for DLA Pacific into the DLA Supply Management financial records. DLA Pacific was previously incorporated as a part of the Defense Reutilization and Marketing Service (DRMS) Activity Group. However, in FY 97 this information was transferred into the Supply Management's financial records. Therefore, DLA Pacific is not shown separately as it is above in FY 96.

B. Unmatched Disbursements and Negative Unliquidated Obligations (In Thousands)

Materiel

Treasury Index 97 Appropriations:	Sept 1996	Sept 1997	Change	Percent
Unmatched Disbursements	$106,236	$37,068	$(69,168)	(65)%
Negative Unliquidated Obligations	$913	$1,884	$971	106%
Aged Intransits	$261,643	$310,187	$48,544	19%
Totals	$368,792	$349,139	$(19,653)	(5)%

Operations

Treasury Index 97 Appropriations:	Sept 1996	Sept 1997	Change	Percent
Unmatched Disbursements	$31,909	$94,968	$63,059	198%
Negative Unliquidated Obligations	$5,724	$15,391	$9,667	169%
Aged Intransits	$0	$0	$0	0%
Totals	$37,633	$110,359	$72,726	193%

1. Negative Unliquidated Obligations do not impact Undistributed Disbursements and are disclosed as an "Information Only" line for the Operations portion of DLA Supply Management.

2. The Unmatched Disbursements and Negative Unliquidated Obligations for both portions of DLA Supply Management are presented for "Information Only" purposes and should not be used to reconcile to the Principal Financial Statements.

C. Undistributed Disbursements And Collections

Materiel

The undistributed amounts used for the materiel portion are present on the trial balances for each commodity. These amounts have their own general ledger account and are controlled and purified by the operational accountants in that commodity. The consolidated amounts for undistributed are:

Undistributed	**Amount**
GLAC 160 - Disbursements	830,191
GLAC 230 - Collections	376,698

Footnotes

Operations

The Undistributed Disbursement and Undistributed Collection adjustments necessitated by the difference between Activity Disbursements and Collections as reported on the Trial Balance and Treasury Disbursements and Collections as reported on the ACRS Cash Book were developed as follows:

Undistributed Disbursements:

	GLAC 471.200	ACRS Cash Book	Difference
30 September 1992	820,462	502,787	317,675
30 September 1993	1,872,827	2,390,585	(517,758)
30 September 1994	2,120,032	1,809,533	310,499
30 September 1995	1,762,125	1,967,890	(205,765)
30 September 1996	2,008,590	1,873,117	135,473
30 September 1997	1,898,465	1,907,389	(8,924)
Cumulative Undistributed Disbursements	10,482,501	10,451,301	31,200

Undistributed Collections:

	GLAC 472.100	ACRS Cash Book	Difference
30 September 1992	120,526	(22,792)	143,318
30 September 1993	394,768	489,797	(95,029)
30 September 1994	571,434	520,137	51,297
30 September 1995	444,464	539,700	(95,236)
30 September 1996	615,401	589,914	25,487
30 September 1997	388,447	392,225	(3,778)
Cumulative Undistributed Collections	2,535,040	2,508,981	26,059.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

DISTRIBUTION DEPOTS

OVERVIEW

DEFENSE WORKING CAPITAL FUND
FY 97 OVERVIEW
DISTRIBUTION DEPOTS ACTIVITY GROUP
DEFENSE LOGISTICS AGENCY

The primary mission of the Distribution Activity Group (Distribution) is the distribution and storage of wholesale and retail materiel in support of customers worldwide. Distribution is responsible for receipt, storage, issue, packing, preservation and transportation arrangements for all items placed under its accountability by DLA and Military Service Inventory Control Points (ICPs). Currently this includes 6 million line items, 27 million annual transactions and nearly 32 million square feet of occupied storage space managed through the Defense Distribution Center and its 24 subordinate distribution depots positioned in the Continental United States and Europe.

These depots store a wide range of DoD commodities and end items for the support of the Military Services and authorized civil agency requisitioners. In addition to handling general supplies, individual depots specialize in unusual or difficult-to-handle items within DoD. These specializations include storage and transportation of DoD's packaged hazardous and flammable materials, performance of deployable medical hospital assembly operations and the wholesale distribution of semi-perishable food items.

Strategic Operating Initiatives and Program Performance Measures

DLA continues its focus to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DLA emphasizes quality improvement, commercial business practices and modern technologies to reduce the cost to the customer while maintaining the maximum level of readiness support for the Services.

In January 1994, DLA was selected as the initial DoD pilot project under the Government Performance and Results Act of 1993 (GPRA). Although DLA completed its requirements under this project, it continues to establish an annual performance plan including operating initiatives designed to focus on specific objectives presented in the DoD Logistics Strategic Plan and the DLA Corporate Plan.

The operating initiatives are presented under four broad strategic goals. The DLA strategic goals and selected Distribution initiatives are as follows:

Overview

1) Put Customers First

The success of Distribution in meeting its mission is measured primarily through the satisfaction of its customers. In October 1994, DLA Corporate Administration, at the direction of DLA Materiel Management (MM), conducted a survey of 30,000 customers, asking each their opinions on DLA MM products and services. The goal was to determine customer satisfaction with DLA in three areas: quality, responsiveness, and price. Results from this survey serve as a baseline for customer satisfaction measurement and reporting. DLA MM conducts a survey of a random sample of customers annually, comparing the results with the baseline survey.

The program performance measures that support this initiative include:

- Customer Satisfaction Index – Overall customer satisfaction based on survey data – the percentage of customers who are satisfied with DLA services/products.

- Customer Complaints – A percentage based on the number of valid Reports of Discrepancies (RODs) received and the total number of Materiel Release Orders (MRO) shipped.

	FY 95 Baseline	FY 96 Actual	FY 97 Actual	FY 97 Goal
Customer Satisfaction Index	60.500%	60.500% **1/**	78.700%	65.000%
Customer Complaints	NA	0.036%	0.400%	0.500%

1/ FY 96 Actual represent composite results from monthly surveys collected. While the annual survey was being developed, Material Management (MM) conducted monthly surveys, distributed by customer service representatives, as an interim measure of customer satisfaction. These monthly surveys, while they provide some information about the level of satisfaction among DLA customers, were not distributed to a random sample and therefore the results cannot be generalized for the entire population of customers.

In addition, on a scale of 1.0 to 5.0, 78.7 percent of the respondents answered with a score of 4.0 or above, suggesting high levels of overall satisfaction with DLA products and services. The top five favorable responses identified DLA employees as courteous, DLA products performing correctly, DLA products as easy to use, DLA products meeting requirements, and DLA products are kept current. Areas for improvement were product availability, timely resolution of problems, keeping customers informed, timely receipt of products and easier access to the "right" DLA employee. Even in the areas identified for improvement, the lowest average score for any question was 3.16.

2) Improve the process of delivering logistics support

Several initiatives and programs within Distribution were recognized with Vice President Gore’s Hammer Award in FY 97. The Hammer Award recognizes teams who have made superior contributions to reinventing one or more aspects of government as envisioned in the principles of the National Performance Review. The initiatives are as follows:

a) Automated Manifest System (AMS) - AMS uses an optical memory card to give troops an instantaneous visibility of supplies, the ability to prioritize off-loading, management information reports, discrepancy reports, and expedited receipt processing.

b) Premium Service - The Premium Service initiative and reinvention lab strives to reduce order and shipment time by emulating the best commercial practices, to provide customers with options for simplified ordering, and expedited door-to-door delivery service for high value or mission critical assets.

c) Mail-like Matter Movement (M3) - This is an initiative under the Express Delivery Reinvention Lab, a partnership with the U.S. Air Force, TRANSCOM, and Federal Express. M3 of classified material allows secret and confidential cargo to move quickly, securely and cheaply via express transportation within the Continental United States (CONUS).

d) Pipeline Compression – A joint Supply and Distribution initiative in support of the DoD effort to reduce Logistics Response Time (LRT). This initiative measures total DoD pipeline as well as breaking it into four segments: the customer or service order time, supply time, Depot time and transportation time. This initiative integrates Inventory Control Point (ICP) and Distribution initiatives to maximize reduction of DLA customer wait time from requisition to materiel receipt. This initiative reflects the Agency's commitment to improving customer responsiveness. It reflects the evolving nature of DLA activity by focusing on improved customer satisfaction instead of traditional measures of inventory effectiveness such as stock availability.

The program performance measures that support this initiative include:

- Materiel Release Order (MRO) Processing Time (On-time Shipments) – the average number of days to process a customer order or requisition, measured from the date the order is received at the depot to the date the materiel is shipped.

- Receipt Processing – Measures the average number of days required for depots to record and stow new procurement and retail receipts to a storage location, measured from the time the receipt arrives at the depot to the time the materiel is actually stowed in a location and posted to the accountable record.

- Disposal Release Order (DRO) Processing Time – Measures the average number of days it takes depots to process/ship DROs. It measures the time period between DRO receipt and materiel shipment.

	FY 96 Actual	FY 97 Actual	FY 97 Goal
LRT – MRO Processing Time			
Priority	0.80 Days	0.60 Days	≤ 1.00 Days
Routine	3.20 Days	1.27 Days	≤ 4.00 Days
Receipt Processing	1.70 Days	1.48 Days	≤ 3.00 Days
Depot Process Time – DRO	14.40 Days	10.70 Days	≤ 21.00 Days

3) Empower employees

Employee empowerment initiatives continued to receive the full support of DLA. These initiatives include Affirmative Action Recognition, Employee Recognition, Equal Employment Opportunity Coverage, Professional Development and Teaming. As further illustration of the agency's commitment to this vital area, DLA established a separate office dedicated to employee development. Our efforts to develop the logistics workforce into a multi-skilled and highly flexible resource are imperative with the downsizing efforts being undertaken throughout the DoD.

4) Increased readiness at reduced cost

Inventory Accuracy – DLA's policy states that accurate inventory records form the cornerstone of effective inventory control. One of our primary objectives is to maintain on-hand balance integrity. In order to attain current and future goals, the distribution depots will be required to conduct wall-to-wall inventories at selected depots and/or within isolated work centers. These inventories will be designed to increase the accuracy of inventory records, formalize and implement cycle count procedures to identify and correct processes, and implement quality control techniques to ensure that distribution balance affecting processes are performed correctly.

The program performance measures that support this initiative include:

- Sample Inventory Accuracy – Measures the accuracy of inventory records based on a random sample and stated as a percentage of accurate records, in units or dollars.

- Locator Accuracy – Measures the percentage of errors detected to the total number of locations surveyed reflecting the accuracy of the stock locator records maintained by the depots.

- Location Reconciliations – Measures the compatibility between the depot and asset manager's records and is stated as the percentage of the total number of errors to the total number of records reconciled.

- Space Utilization – Indicates the total usable storage space occupied in DLA warehouses/storage facilities for all depots.

- Materiel Denial Rate – The ratio of the number of denials to the total number of requisitions received. Denials occur when the required materiel, although recorded as available on the stock locator record, is either not on-hand or cannot be located at the depot.

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Sample Inventory Accuracy **1/**	92.50%	97.00%	93.00%
Locator Accuracy **/3**	99.10%	99.43%	99.00%
Location Reconciliation **5/**	96.50%	91.02%	97.00%
Space Utilization **4/**	67.40%	70.30%	85.00%
Denial Rate **2/ 3/**	0.82%	0.67%	0.80%

1/ Currently, there are three sampling methods used to select samples used to determine the Sampling Inventory Accuracy. Through FY 97, two stratified methods and one simple random were used. DLA is transitioning toward the use of a single stratified method which should be completed by December 1998. As a result of three different sampling methods being used in FY 97, it was not possible to combine the statistical results in a meaningful manner. The range of Sample Inventory Accuracy reported for FY 97 is 70% - 97%.

2/ Please note that BRAC sites were not included in the FY 97 Actual.

3/ During FY 97, the material disposed or redistributed from closing depots continued to adversely affect location accuracy and denial areas.

4/ During FY 97, DLA did not achieve the space utilization goal of 85% as a result of ICPs reducing their stock levels at a greater rate than anticipated and because of OSD driven initiatives to reduce overall stock levels.

5/ As the result of the implementation a new reconciliation system, DLA ceased the former reconciliation process for an extended period of time. After the implementation was complete and reconciliation process was resumed, DLA found a large number of reconciliation errors. These errors were corrected and the inventory reconciliation accuracy was improved. However, the measurement was skewed by the earlier reconciliations where a majority of errors had occured.

Reduced Infrastructure - The Base Realignment and Closure (BRAC) IV decisions resulted in the closure of depots at Ogden, Utah and Memphis, Tennessee along with realignment at the Columbus, Ohio depot. There is also a continuing decline in the requirement for storage space of service-owned materiel. DLA is planning to reduce the distribution operations footprint within CONUS through our future A-76 initiatives.

Direct Vendor Delivery/Prime Vendor Programs - These programs satisfy customer requirements directly from contractor inventories. They reduce the need to stock material inventories at our distribution depots.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

DLA began preparing financial statements in accordance with the Act in 1992 and believes the information reported continues to improve. Nevertheless, several challenges remain and are discussed in the following paragraphs. During FY 94, DLA established short- and long-term goals for creating a comprehensive financial management system, and undertook a number of initiatives to identify and assess the financial statement impact of current accounting practices. These goals and initiatives enabled DLA to establish milestones to improve financial data accuracy and reliability. DLA has worked diligently to reach these milestones during FY 95, FY 96 and FY 97, with significant progress achieved in the areas of accounts payable and receivable, property, plant and equipment and financial analysis. This process continues in FY 98.

The Federal accounting community continues to establish “Generally Accepted Accounting Principles” for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of “Generally Accepted Accounting Principles” will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

Traditional fund management, prior to DWCF, did not require the calculation of depreciation on property, plant and equipment (PP&E). In 1992 Distribution activities for the Department of defense were consolidated under DLA and large quantities of PP&E were transferred from the Military Services to DLA without appropriate accounting documentation. As a result, PP&E was not always accurately reflected in the accounting records and, through FY 94 DLA, had not properly accounted for all the PP&E for which it was responsible. Significant progress has been made toward correcting this situation. In conjunction with the implementation of the Defense Property Accounting System (DPAS), all DLA field activities undertook the review and revision of their property records. Additionally, DLA began validating the records of sites with significant balances and/or discrepancies. DPAS implementation was substantially completed through the end FY 97.

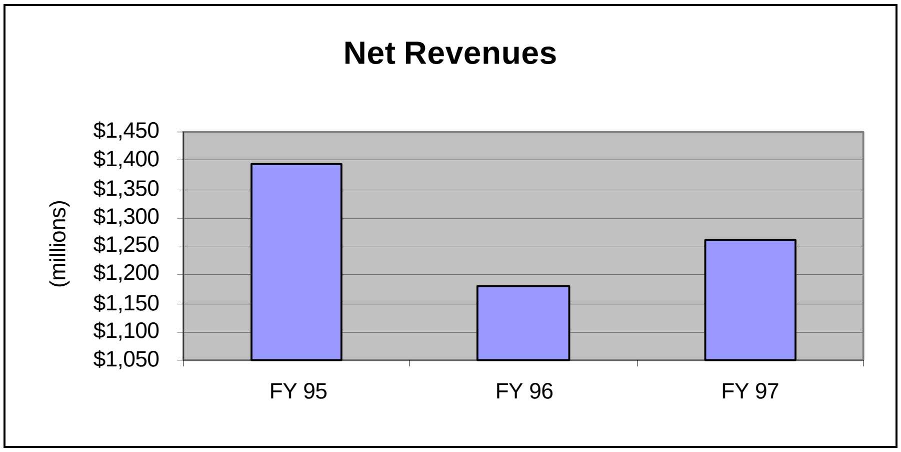
Accounts Receivable and Accounts Payable include “undistributed” amounts which represent the differences between collections and disbursements on the general ledger and those which have been reported through the finance network/ACRS cash report. The Department has recognized the “undistributed” problem and is currently pursuing corrective actions. The Defense Finance and Accounting Service (DFAS) site in Columbus, OH, which supports DLA, has also recognized this problem and has assigned accounting personnel for each DLA activity group the responsibility of reconciling the finance network and ACRS cash figures.

Accounts Receivable and Accounts Payable include over-aged and negative amounts that are currently under investigation for system and processing deficiencies. Significant progress has been made in resolving some of the over-aged amounts within Accounts Receivable and Accounts Payable as a result of continuing emphasis on Unmatched Disbursements and Negative Unliquidated Obligations.

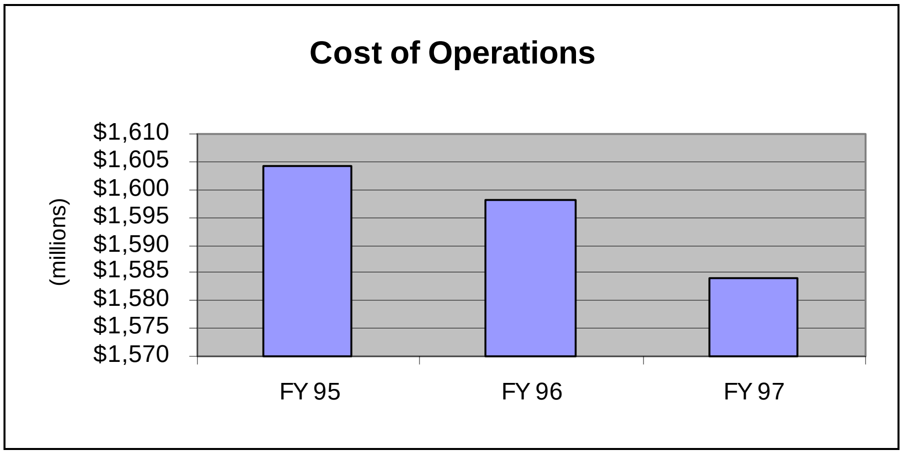
Financial Performance Measures

The following graphs and tables are presented to show financial performance trends of Net Revenues and Cost of Operations:

Overview



	FY 95	Change	FY 96	Change	FY 97
Net Revenues (Millions)	$ 1,395	–15.5%	$ 1,179	+6.9%	$ 1,261



	FY 95	Change	FY 96	Change	FY 97
Cost of Operations (Millions)	$ 1,604	–0.4%	$ 1,598	–0.9%	$ 1,584

Financial performance measures provide additional information on the efficiency and effectiveness of activity group operations. The Distribution Depot financial performance measures are identified below:

Cost per Line Item - Bin Receipt – Bin receipt is the receipt of inbound supplies which can be stored in bin warehouse locations, including new procurement, customer returns, depot maintenance returns not classified as end items, foreign military sales materiel, total package fielding materiel, and contingency materiel. This output measure ends with the notification to the materiel manager that the materiel has been received.

Cost per Line Item - Medium Bulk Receipt – Medium bulk receipt is the receipt of inbound supplies, including new procurement, customer returns, depot maintenance returns not classified as end items, foreign military sales materiel, total package fielding materiel, and contingency materiel. Medium bulk items are stored in pallet racks, in bulk warehouse locations, or in outside storage, and are processed as less than truckload or full truckload receipts of a single item of supply.

Cost per Line Item - Bin Issue – Bin issue is comprised of a count for each line of materiel issued from a bin location. This includes the selection of stock from storage and release to transportation (or directly to the customer) for delivery of material to the consignee, including materiel release orders, disposal release orders, and redistribution orders, as well as any issues to maintenance activities collocated with distribution depots, for wholesale and retail stocks.

Cost per Line Item - Medium Bulk Issue – Medium bulk issues include the selection of stock from medium bulk storage locations and release to transportation (or directly to the customer) for delivery of material to the consignee, including materiel release orders, disposal release orders, and redistribution orders, as well as any issues to maintenance activities collocated with distribution depots, for wholesale and retail stocks.

Cost per Line Item - Hazardous/Heavy Bulk Receipt – Hazardous receipt is comprised of hazardous or radioactive items requiring specialized/hazardous storage. Hazardous materiel is a substance or materiel that the Secretary of Transportation has determined to be capable of posing an unreasonable risk to health, safety, and property when transported in commerce. This is expanded to include items of supply (substances or materiel) that, because of their quantity, concentration, or physical, chemical, or infectious characteristics, may either cause or significantly contribute to serious, irreversible, or incapacitating illness or an increase in mortality. Heavy bulk receipt is comprised of single, hard-to-handle items, e.g., steel, wire, cable, etc., stored in a warehouse or at an outside storage area.

Cost per Line Item - Hazardous/Heavy Bulk Issue – Hazardous issue is comprised of one or more pallet loads of hazardous or radioactive items issued from a hazardous warehouse location. Hazardous materiel is a substance or materiel that the Secretary of Transportation has determined to be capable of posing an unreasonable risk to health, safety, and property when transported in commerce. This is expanded to include items of supply (substance or materiel), that because of their quantity, concentration, or physical, chemical, or infectious characteristics, may either cause or significantly contribute to serious, irreversible, or incapacitating illness or an increase in mortality. Heavy bulk issue is comprised of single, hard-to-handle items issued from heavy bulk warehouse location.

Transshipments – Transshipments are materiel received and issued directly to local customers, not requiring storage. Receipt and issue is counted as one action.

Unit Cost – A business-type cost accounting procedure and system that captures all costs required to produce an output. The process is to identify the output, the cost of producing the output, and the workload performed for an output (unit cost = cost/workload). The costs are identified as direct/ indirect and general and administrative (overhead). The output of the depot is a line item received or issued.

Analysis of Financial Performance Measures

In FY 97, DLA established another layer of discrete pricing through the development of separate rates for on-base and off-base issues. This process eliminated commercial transportation charges from the cost per line item for on base issues to local customers. Calculation of cost per line item for on-base and off-base issues began in FY 97; therefore comparability of FY 96 to FY 97 is diminished. Distribution Depot financial performance measure results for FY 96 and FY 97 and the FY 97 goals are as follows:

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Cost/Line Item – Bin Receipts	$ 38.33	$ 22.89	$ 27.00
Cost/Line Item – Medium Bulk Receipts	$ 37.95	$ 33.72	$35.76
Cost/Line Item – Hazardous/Heavy Bulk Receipts	$ 56.40	$ 42.90	$ 48.11
Cost/Line Item – Bin Issues	$ 19.65	NA	NA
Cost/Line Item – Bin Issues On Base	NA	$ 12.25	$ 13.14
Cost/Line Item – Bin Issues Off Base	NA	$ 15.62	$ 15.50
Cost/Line Item – Medium Bulk Issues	$ 36.85	NA	NA
Cost/Line Item – Medium Bulk Issues On Base	NA	$ 24.65	$ 27.27
Cost/Line Item – Medium Bulk Issues Off Base	NA	$ 34.21	$ 39.37
Cost/Line Item – Hazardous/Heavy Bulk Issues	$ 73.94	NA	NA
Cost/Line Item – Haz/Heavy Bulk Issues On Base	NA	$ 45.00	$ 52.30
Cost/Line Item – Haz/Heavy Bulk Issues Off Base	NA	$ 83.87	$ 88.25
Cost/Line Item – Transshipments	$ 3.06	$ 2.90	$ 2.46

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Unit Cost – Total	$ 29.93	$ 23.57	$ 25.14
Unit Cost – Covered Storage **1/**	NA	$ 7.17	$ 7.17
Unit Cost – Open Storage **1/**	NA	$ 0.75	$ 0.75

1/ In FY 96, Distribution's financial performance measures included both processing and storage costs. For FY 97, financial performance measures were reported using a separate processing and storage rate. The actual storage rate is developed using an average of the square footage occupied during the previous four fiscal quarters. Therefore, the actual performance measure and the goal are the same.

Overview

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

DISTRIBUTION DEPOTS

PRINCIPAL STATEMENTS

Principal Statements

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($288,603)	($7,445)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	333,068	351,240
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	222	217
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	917	1,198
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	591,299	541,338
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	$636,903	$886,548
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$636,903	$886,548
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$205,957	$216,989
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	182,929	184,091
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	4,120	2,329
(b) Annual Accrued Leave	35,258	37,736
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	$428,264	$441,145

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$428,264	$441,145
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	1,731,936	711,173
c. Cumulative Results of Operations	(1,523,297)	(1,246,567)
d. Other	0	980,797
e. Future Funding Requirements	0	0
f. Total Net Position	$208,639	$445,403
8. Total Liabilities and Net Position	$636,903	$886,548

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	(6)
b. Intragovernmental	1,260,563	1,179,238
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$1,260,563	$1,179,232
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$1,545,234
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	1,532,595	0
11. Depreciation and Amortization	51,489	52,746
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	206
14. Other Expenses (Note 25)	0	0
15. Total Expenses	$1,584,084	$1,598,186
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($323,521)	($418,954)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($323,521)	($418,954)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$445,403	$492,487
20. Adjustments (Note 27)	34,555	(35,019)
21. Net Position, Beginning Balance, as Restated	$479,958	$457,468
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(323,521)	(418,954)
23. Plus (Minus) Non Operating Changes (Note 28)	52,202	406,889
24. Net Position, Ending Balance	$208,639	$445,403

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($323,521)	($418,954)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	18,167	558,630
4. Decrease (Increase) in Other Assets	281	60
5. Increase (Decrease) in Accounts Payable	(12,195)	(75,002)
6. Increase (Decrease) in Other Liabilities	(686)	27,352
7. Depreciation and Amortization	51,489	52,746
8. Other Unfunded Expenses	0	(39,510)
9. Other Adjustments	34,556	(35,019)
10. Total Adjustments	$91,612	$489,257
11. Net Cash Provided (Used) by Operating Activities	($231,909)	$70,303
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(56,694)	(77,748)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($56,694)	($77,748)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	7,445	327,879
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	$7,445	$327,879

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Distribution Depots
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	$7,445	$327,879
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($281,158)	$320,434
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(7,445)	(327,879)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($288,603)	($7,445)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$0	$406,889

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

DISTRIBUTION DEPOTS

FOOTNOTES

Footnotes

DEFENSE WORKING CAPITAL FUND
DISTRIBUTION DEPOTS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

Note 1. Summary of 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) Distribution Depots activity group (Distribution), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of Distribution in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, Distribution accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the Distribution financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

Distribution receives, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments and other DoD components, Federal agencies, and selective foreign governments. The current depot structure encompasses 24 depots and 5 storage locations. All depot sites report directly to the Defense Distribution Center located at New Cumberland, Pennsylvania (DDC). Distribution's mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5B.

For FY 97, Distribution recognized $17.2 million in indirect costs and reimbursed Supply Management. Through FY 96, these financial statements did not include indirect costs of the Agency. These costs were included in Supply Management statements and were not allocated to Distribution for purposes of financial accounting and reporting.

The CFO Act requires Distribution, as a business entity under DWCF, to provide audited financial statements. FY 97 represents the sixth year that Distribution has prepared financial statements as required by the CFO Act.

C. Budgets and Budgetary Accounting:

Each allotment of Distribution receives an annual operating budget (AOB). The Distribution depots' AOBs provide total cost authority in unit cost terms. Unit Cost Resourcing provides the operating expense authority/cost authority for such items as salaries, non-labor expenses, and operating supplies within each activity. Cost authority or the amount "earned" is computed from the actual work load times the unit cost goals for mission work. Reimbursable funding is provided by local activities for non-mission work.

Each activity can also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. However, the Office of the Secretary of Defense (OSD) has not issued official accounting guidance regarding this reporting requirement and current accounting systems used to record earnings, expenses, collections and disbursements have not been designed to identify and retain this information at the appropriate detail level. Therefore, in order to comply with this requirement, estimated calculations are provided. Note 29 identifies the eliminations in general terms; however, due to our inability to capture the necessary financial data, certain schedules are completed in full while others are incomplete.

E. Revenues and Other Financing Sources:

Revenues and financing sources for Distribution consist of reimbursements from Supply Management for receipt and issue of materiel and reimbursable funding provided by local activities for non-mission work. Revenues are recognized when earned based on actual workload for the period. Revenue may be billed up to two months after work is performed. These financial statements include an adjustment to accrue for these billings.

Distribution also performs transportation and container consolidation point services on a reimbursable basis. However, costs incurred through FY 97 in providing these services totaled $285.3 million while reimbursements received were only $131.1 million, resulting in a shortfall of $154.2 million.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and depends upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, these financial statements do not include approximately $17.2 million of overhead costs of the Agency. These costs are reported in the Supply Management activity group. Additionally, DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

Finally, Distribution's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). Distribution does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF activity groups account for cash collections and disbursements. Cash balances are not allocated to the activity groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by OSD, Distribution obtains cash receipt and disbursement information from the finance network/ACRS cash report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/ACRS cash report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

Distribution does not transact business in foreign currencies.

Footnotes

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources. An allowance for uncollectible accounts has not been established as Distribution has not experienced significant uncollectible amounts.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/ACRS cash report. As a result of the transfer of accounting and management responsibilities, DLA has limited capability to reconcile these differences.

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for detail on the amounts of these transactions at year-end.

J. Loans Receivable:

Distribution does not lend money.

K. Inventories:

Distribution performs the warehousing function for the DoD, however it owns no materiel inventory. Inventory stored in the depots is owned and managed by other activity groups (primarily DLA and the Services' supply management) and by entities outside the DWCF.

L. Investments in U.S. Government Securities:

Distribution does not invest in U.S. Government securities.

M. Property, Plant and Equipment:

Distribution capitalizes equipment according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, greater than or equal to $50,000 for FY 95 and greater than or equal to $100,000 for FY 96 and FY97.

- Estimated useful life is two years or more.

Capital assets in Distribution are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. The capital assets for Distribution include such items as ADP equipment, materiel handling systems, and software.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods and services are received.

O. Leases:

Distribution is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

Distribution may also be party (as lessee) to a limited number of leases that meet the criteria of capital leases. However, Distribution’s accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized, but expensed as incurred.

P. Contingencies:

Distribution may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect Distribution's operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year, the balance in the accrued annual leave account is adjusted to reflect changes to those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of invested capital, capitalization of assets, cumulative results of operations, future funding requirements, reserve for real property maintenance, and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to Distribution.

T. Treaties for Use of Foreign Bases:

Distribution has not entered into treaties for the use of foreign bases.

U. Comparative Data:

The financial statements present FY 96 and FY 97 amounts.

V. Restatement of Prior Year Principal Statements:

Not applicable.

W. Undelivered Orders:

This activity group is obligated for goods and services that have been ordered but not yet received. Total undelivered orders amounted to $280 million as of September 30, 1997.

Note 2. Fund Balances With Treasury

A. Business Operations Fund (USD(C)) and All Other Funds and Accounts:

Not applicable.

B. Business Operations Fund Activities Below USD(C) Level:

Entity Assets:

	1997	1996
Beginning Balance	(7,445)	(327,879)
Transfers of Cash to Others	0	0
Transfers of Cash from Others	7,445	327,879
Funds Collected	1,279,364	1,708,003
Funds Disbursed	(1,567,967)	(1,715,448)
Ending Balance	(288,603)	(7,445)

C. Business Operations Fund Activities and All Other Funds and Accounts:

Not applicable.

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the Military Services' Listing and ACRS cash report. The difference between cash collections amounts in the ACRS cash report and service listing and the amount in the general ledger was $216 million. This amount is recorded as an increase in accounts receivable.

The difference between cash disbursements amount in the service listing and ACRS cash report and the amount in the general ledger was $8.7 million. This amount is recorded as a increase in accounts payable.

Note 3. Cash, Foreign Currency and other Monetary Assets

Not applicable.

Note 4. Investments

Not applicable.

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Uncollectible	(3) Allowance Method Used	(4) Total Amount Due
A. Entity Receivables:				
Intragovernmental	333,068	0	n/a	333,068
Governmental	222	0	n/a	222
B. Non-Entity Receivables:				
Intragovernmental	0	0	n/a	0
Governmental	0	0	n/a	0

C. Other Information:

The difference between cash collections in the finance network/ACRS cash report and the general ledger amounted to $215 million. This amount is recorded as an increase in accounts receivable.

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for detail on the amounts of these transactions at year-end.

Note 6. Other Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Note 8. Inventory, Net

Not applicable.

Note 9. Work in Process

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

Not applicable.

Note 11. Stockpile Materials, Net

Not applicable.

Note 12. Seized Property

Not applicable.

Note 13. Forfeited Property, Net

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not applicable.

Note 15. Property, Plant and Equipment, Net

	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
A. Land:				0	0
B. Structures, Facilities, & Leasehold Improve:	SL	20	1,286,498	835,335	451,163
C. Military Equipment:	______	_____	0	0	0
D. ADP:	SL	5	0	0	0
E. Equipment:	SL	10	315,809	175,673	140,136
F. Assets under Capital Lease:	_______	_____	0	0	0
G. Other:	_______	_____	0	0	0
H. Natural Resources:			0	0	0
I. Construction in Progress:			0	0	0
TOTAL			1,602,307	1,011,008	591,299

Footnotes

* Key

Depreciation Methods	Range of Service Life
SL - Straight Line	2-5 - 2 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digit	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other (describe)	

J. Other Information:

The above values were ascertained from inventory of facilities, equipment, and ADP hardware/software by Depots. This inventory was performed as a requirement prior to implementation of the DPAS (Defense Property Accountability System). Included in the above facilities are the Distribution facilities at the DDC.

Distribution is in the process of implementing the Distribution Standard System (DSS) throughout all of its depots. Through 9/30/97, the total cost of this system is in excess of $80 million. Distribution is in the process of determining how to implement the guidance contained in the DoD Financial Management Regulation, which will help establish the appropriate time DSS was placed into service, and therefore begins depreciating. However, for the FY 97 financial statements, this amount has not been capitalized.

Capital assets in Distribution are accounted for in the DPAS System of Defense Business Management System (DBMS).

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment. Furthermore, in 1992, storage depot activities for the DoD were consolidated under Distribution and large quantities of property, plant and equipment were transferred from the Military Services. As a result, property, plant and equipment was not always reflected on the accounting records.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Note 16. Debt

Not applicable.

Note 17. Other Liabilities

Not applicable.

Note 18. Leases

A . Entity as Lessee:

Operating Leases

Distribution is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities.

Distribution generally leases facilities and equipment from year to year under Interagency Service Agreements. Although these agreements may extend for longer than a year, the majority can be renegotiated, and thus, they are not considered noncancelable. Rental expense associated with these agreements is expensed when paid.

B. Entity as Lessor:

Not applicable.

C. Other Information:

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

Distribution's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). Distribution does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

Note 20. Net Position

		Revolving Funds	Trust Funds	Appropriated Funds	Total
A.	**Unexpended Appropriations:**				
	(1) Unobligated,				
	a. Available	0	0	0	0
	b. Unavailable	0	0	0	0
	(2) Undelivered Orders	0	0	0	0
B.	**Invested Capital:**	1,731,936	0	0	1,731,936
C.	**Cumulative Results of Operations**	(1,523,297)	0	0	(1,523,297)
D.	**Other**	0	0	0	0
E.	**Future Funding Requirements:**	0	0	0	0
F.	**TOTAL:**	208,639	0	0	208,639

G. Other Information: Not applicable.

Note 21. Taxes

Not applicable.

Note 22. Other Revenue and Financing Sources

Not applicable.

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:		1997	1996
(1)	Personal Services and Benefits	0	665,737
(2)	Travel and Transportation	0	441,078
(3)	Rental, Communication and Utilities	0	18,602
(4)	Printing and Reproduction	0	1,778
(5)	Contractual Services	0	338,258
(6)	Supplies and Materials	0	62,934
(7)	Equipment not Capitalized	0	16,847
(8)	Grants, Subsidies and Contributions	0	0
(9)	Insurance Claims and Indemnities	0	0
(10)	Other: Interest Payments	0	0
(11)	**Total Expenses by Object Class**	0	1,545,234

B. Operating Expenses by Program: Not applicable.

C. Other Information: As directed by DFAS Headquarters, operating expenses for FY 97 have been considered on Line A.2 of Cost Of Goods and Services Sold of Note 24, rather than as Operating Expenses as declared in FY 96.

Note 24. Cost and Goods and Services Sold

A. Cost of Services Sold	
1. Beginning Work-in-Process	0
2. Plus: Operating Expenses	1,532,595
3. Minus: Ending Work-in-Process	0
4. Minus: Completed Work for Activity Retention	0
Cost of Services Sold	1,532,595

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

Not applicable.

C. Cost of Goods Sold from Inventory (using Historical Cost):

Not applicable.

D. Other:

Operating Expenses by Object Classification:		1997	1996
(1)	Personal Services and Benefits	644,149	$0
(2)	Travel and Transportation	444,904	0
(3)	Rental, Communication and Utilities	18,065	0
(4)	Printing and Reproduction	1451	0
(5)	Contractual Services	342,253	0
(6)	Supplies and Materials	55,250	0
(7)	Equipment not Capitalized	18,664	0
(8)	Grants, Subsidies and Contributions	113	0
(9)	Other Program or Operating Expenses	7746	0
			0
(11)	**Total Expenses by Object Class**	1,532,595	$0

Note 25. Other Expenses

Not applicable.

Note 26. Extraordinary Items

Not applicable.

Note 27. Prior Period Adjustments

A.	**Prior Period Adjustments:**	1997	1996
(1)	Understatement of expenses in FY 95	0	(4,877)
(2)	Overstatement of revenues in FY 94	0	(30,141)
(3)	Overstatement of expenses in FY 96	1,511	0
(4)	Overstatement of expenses in FY 96	33,044	0
	Total	34,555	(35,018)

B. Other Information:

Not applicable

Note 28. Non-Operating Changes (Transfers and Donations)

		1997	1996
A.	**Increases:**		
(1)	Transfers-In:		
	(a) Cash	7,445	327,879
	(b) Equipment	44,757	79,010
(2)	Donations Received	0	0
(3)	Other Increases	0	0
(4)	Total Increases	52,202	406,889
B.	**Decreases:**		
(1)	Transfers-Out:		
	(a) Cash	0	0
(2)	Donations	0	0
(3)	Other Decreases	0	0
(4)	Total Decreases	0	0
C.	**Net Non-Operating Changes (Transfers):**	52,202	406,889

D. Other Information: Not applicable.

Note 29. Intrafund Eliminations

Schedule A:

Not applicable.

Footnotes

Schedule B:

Selling Activity:	**Column A** Accounts Receivable*	**Column B** Revenue	**Column C** Unearned Revenue	**Column D** Collections*
DLA, Distribution Depots	54,454	590,924	0	599,575
	54,454	590,924	0	599,575

Customer Activity:	**Column A** Accounts Payable*	**Column B** Expenses	**Column C** Advances	**Column D** Disbursements*
Intra DLA Support	92	671	0	668
DA Btwn DLA	11,526	125,151	0	126,986
Intra-DLA (Stock Fnd or Indus Fnd)	42,836	465,102	0	471,921
	54,454	590,924	0	599,575

* See Other Information, below.

Schedule C:

Selling Activity:	**Column A** Accounts Receivable*	**Column B** Revenue	**Column C** Unearned Revenue	**Column D** Collections*
DLA, Distribution Depots	61,656	669,593	0	679,407
	61,656	669,593	0	679,407

Customer Activity:	**Column A** Accounts Payable*	**Column B** Expenses	**Column C** Advances	**Column D** Disbursements*
Navy, Marine Corps	12,231	132,805	0	134,752
Army	15,277	165,880	0	168,312
Air Force	14,771	160,380	0	162,731
Other Defense Agencies	19,377	210,528	0	213,612
	61,656	669,593	0	679,407

* See Other Information, below.

Schedule D:

Selling Activity:	**Column A** Accounts Receivable*	**Column B** Revenue	**Column C** Unearned Revenue	**Column D** Collections*
DLA, Distribution Depots	201	15	0	627
	201	15	0	627

Customer Activity:	**Column A** Accounts Payable*	**Column B** Expenses	**Column C** Advances	**Column D** Disbursements*
GSA	201	15	0	627
	201	15	0	627

* See Other Information, below.

***Other Information :**

For Schedules B, C, and D, earnings were shown at a detail source code level in the General Ledger Trial Balance, thus allowing Expenses to be shown at the lowest Customer Activity Level above. However, Accounts Receivable and Collections are not reflected in the General Ledger Trial Balance using the same detail source code level; therefore, detail level Accounts Payable and Disbursements were computed using a percentage of Earnings in order to be shown at the same Customer Activity level.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

A. Accounts Payable Undistributed Disbursements (in thousands):

Accounts Payable Adjusted for Undistributed Disbursements	388,886
less: Accounts Payable per Agency Records	(397,639)
Undistributed Disbursements	(8,753)

Footnotes

B. Accounts Receivable Undistributed Collections (in thousands):

Accounts Receivable Adjusted for Undistributed Collections	333,290
less: Accounts Receivable per Agency Records	(117,293)
Undistributed Collections	215,997

C. Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements

Treasury Index 97 Appropriations	September 1996	September 1997	Change	% Change
Unmatched Disbursements	26,236	13,361	(12,875)	(49 %)
Negative Unliquidated Obligations	0	2,539	2,539	100 %
Aged In-Transit Disbursements	0	0	0	0 %
Totals	26,236	15,900	(10,336)	(39 %)

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

REUTILIZATION AND MARKETING

OVERVIEW

Overview

DEFENSE WORKING CAPITAL FUND
FY 97 OVERVIEW
REUTILIZATION AND MARKETING ACTIVITY GROUP
DEFENSE LOGISTICS AGENCY

The primary mission of the Defense Reutilization and Marketing Service (DRMS) Activity Group is the reuse of excess and surplus property within the government and other authorized agencies and the disposal of remaining property and hazardous waste items through sales and contractual vehicles. Items not reutilized within DoD are screened for possible transfer to other Federal agencies or for donation to local governments. Surplus property not reutilized is then offered for sale to the public on a competitive basis. Overall command and control of this program is accomplished by DRMS, which consists of a headquarters organization in Battle Creek, Michigan, and two operations offices, East and West. The mission of this organization is accomplished by individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lotting, merchandising, and sales. Excess items received by the DRMOs and meeting military service criteria are automatically referred to DoD item managers through front-end screening notices. Inventory managers with requirements submit automated requisitions using standard requisition and issues procedures.

The disposition of hazardous property is accomplished according to its classification as hazardous waste or material in accordance with various stringent Federal, state and local laws. In this capacity, DRMS handles the majority of DoD property governed by the Resource Conservation Recovery Act (RCRA) of 1976, as amended. Generally all hazardous waste is directly disposed of through contracts funded by the military services. However, hazardous material has reutilization value and goes through the same general procedures as all other DoD property, with the distinction that it receives much closer scrutiny before it is offered for sale to the public.

The economic recovery of precious metals from excess and surplus metal-bearing material is also performed by DRMS. The recovered precious metal is used for authorized internal purposes or as Government Furnished Material (GFM). The costs to recover this material are passed on to the users.

Strategic Operating Initiatives and Program Performance Measures

DLA continues its focus to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DLA emphasizes quality improvement, commercial business practices and modern technologies to reduce the cost to the customer while maintaining the maximum level of readiness support for the Services.

Overview

In January 1994, DLA was selected as the initial DoD pilot project under the Government Performance and Results Act of 1993 (GPRA). Although DLA completed its requirements under this project, it continues to establish an annual performance plan including operating initiatives designed to focus on specific objectives presented in the DoD Logistics Strategic Plan and the DLA Corporate Plan.

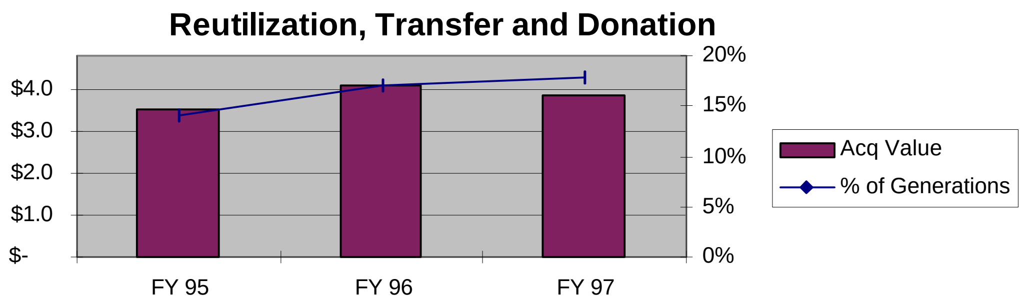
DRMS is committed to its objectives and is pursuing initiatives to meet them in every facet of its operations.

The operating initiatives are presented under four broad strategic goals. The DLA strategic goals and selected DRMS initiatives are as follows:

1) Put Customers First

<u>Reutilization/Transfer/Donation Enhancements</u> - DRMS continued to excel in its first mission of reutilizing, transferring and donating (R/T/D) property to authorized customers. In FY 97, DRMS reutilized, transferred or donated $3.9 billion based on transfer value. This represented 18 percent of generations against our GPRA goal of 17.5 percent. At a fully burdened cost of $72 million, DRMS provided $3.9 billion in cost avoidance to DoD, Federal and State customers at a cost of $0.018 on the dollar of acquisition value. DRMS achieved this performance through improved automation, aggressive customer promotion through conferences and publications, and commodity analysis to target property to R/T/D customer needs. DRMS maintains a toll free customer service phone line to address questions or concerns participants may have pertaining to the R/T/D program.

<u>R/T/D as A Percentage of Generations</u> – This measure represents the aggregate acquisition value of the reutilized, transferred and donated property processed, expressed as a percentage of acquisition value of all excess/surplus property received. This measure applies to available assets that are economically reused thus preventing concurrent procurement of new assets. It addresses disposal via reutilization to another Defense customer, transfer to another federal agency, or donation to eligible state and local governments or non-profit organizations.



	FY95 Actual	FY 96 Actual	FY 97 Actual	FY 97 Goal
R/T/D as % of Generations	14%	17%	18%	17.5%
Acquisition Value (Billions)	$ 3.5	$ 4.1	$ 3.9	

ISO 9002 - In FY 96, DRMS accomplished the first successful ISO 9002 registration within the DLA. In FY 97, DRMS continued its pursuit of quality by preparing an additional six locations for the formal registration process. The actual registration itself is on hold pending the completion of a cost/benefit analysis of DRMS' registration efforts. This analysis is expected in January 1998. As a result of the implementation of the ISO 9002 framework, DRMS has seen a decrease in the number of customer complaints at some offices either registered or in the process of registration, as well as a decrease in the number of instances of procedural error and operating non-compliance.

2) Improve the Process of Delivering Logistics Support

World-Wide-Web (WWW)- A Hammer Award was presented to a team of DRMS employees for the Information Superhighway Initiative. The award recognized process changes made possible because of the team's development of the DRMS WWW site. It allows anyone with a graphical interface to the Internet to search by noun, Federal Supply Class (FSC), national stock number (NSN) and geographic location. The DRMS WWW site was widely used, with over 3.5 million Web pages viewed. DRMS implemented a number of enhancements to the WWW site in FY 97. These included:

- Redesign of the Web site to establish a common "look and feel" to enable users to utilize DRMS processes more easily.
- Import of the Fed Log (FLIS) CDs to the Oracle database, allowing FLIS data to be linked to online property searches.
- Establishment of links from search output to available photographs of property.
- Posting of hazardous waste procurement solicitations.

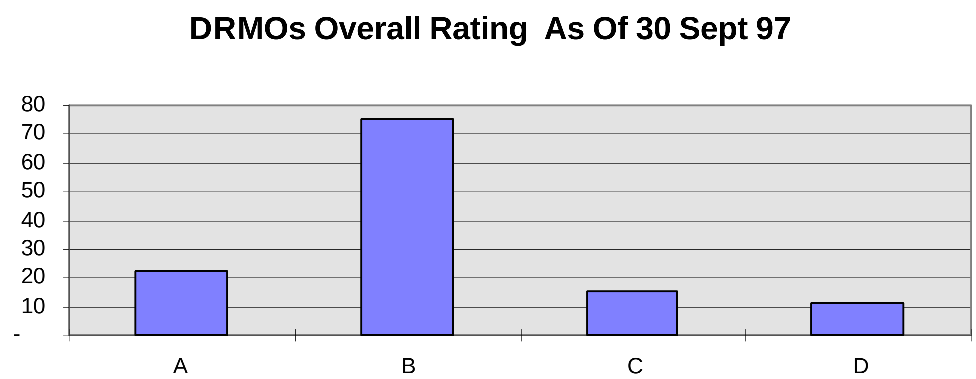
Overview

Automatic Identification Technology (AIT) Upgrades - DRMS deployed a Radio Frequency (RF) Receiving prototype to three test sites in FY 97. RF Receiving is the first AIT project to be developed and fully tested since the initial Inventory Management Bar Coding System was deployed in FY 96. RF Receiving enables DRMO personnel to process receipt documentation utilizing a hand held Portable Input Terminal (PIT) anywhere in the DRMO yard. Receiving through PITs allows real time interactive updates to DRMS Automated Information System (DAISY) as well as National Item Identification Number (NIIN) search and inquiry capabilities.

DAISY Modernization - The DAISY Modernization program continued to make significant progress in FY 97 with the accomplishment of numerous initiatives. Chief among these were the development and fielding of the Recycling Control Point (RCP) process at seven prototype locations, the completion of the deployment of the Financial Tracking System/Conversion of Referral and Local Sales (CORALS), the development and initial deployment of the multi-user Single Hazardous Input System (SHIP) application and completion of Y2K work on the DAISY National Sales Program (DNSP) application. These initiatives are designed to improve DRMS' processes while reducing operating costs.

Electronic Commerce/ Electronic Data Interchange (EC/EDI) - DRMS continued to make progress in the automation arena in FY 97. Through dedicated team efforts and resource commitments, issuance of "paperless" delivery orders against hazardous waste disposal contracts grew in concert with the number of trading partners in actual production during FY 97. DRMS' trading partners that achieved actual production in FY 97 represents 43 percent of the hazardous waste contract dollars awarded during the fiscal year. DRMS' issuance of hazardous waste delivery orders via electronic data interchange conforms to the American National Standard Institute's automated Federal Implementation Conventions. Normally, delivery orders are manually processed and mailed to contractors, with an average processing time of three days. "Paperless" delivery orders can be issued and received within 24 hours. This practice enables us to serve our customers in a faster, more efficient manner.

Property Accountability - DRMS continued to improve upon its accountability oversight program of the DRMO and its subsequent results. DRMS performed 124 on-site quality visits of the DRMOs in FY 97. These visits emphasized procedural compliance in administrative, security, inventory management, demilitarization, cash management and environmental operations. Seventy-five percent of those DRMOs visited either met or substantially met all procedural requirements. Corrective action was immediately initiated at those sites needing assistance. As a means of further oversight, all DRMOs also perform a self-assessment verification of their procedural compliance three times a year.



DRMO Report Card

A - Meets Standard
B - Substantially Meets Standards
C - Generally Meets Standards
D - Requires Improvement

.

Demilitarization (DEMIL) – Over 20,000 DEMIL code challenges were processed during FY 97, with approximately 40 percent of the challenges resulting in changing the coding from non-DEMIL to DEMIL-required. This ensured that DEMIL-required property received proper handling and control. DRMS also spearheaded an initiative to update the DEMIL codes in the Federal Logistics Information System (FLIS) for DLA and Air Force managed items. DEMIL coding recommendations made by DRMS were overlaid for over 300,000 National Stock Numbers (NSNs).

Cash Management – Another DRMS emphasis in FY 97 was improving the process of reimbursing sales proceeds to the generating activities. DRMS had several backlogs to work on in order to do this; a backlog of collections that had not been reimbursed, a backlog of bad debts, and a backlog of unclosed contracts. While working these backlogs, DRMS also researched individual agency requests for overdue reimbursements and ensured that current reimbursements did not fall behind and add to the backlog.

Financial Tracking System (FTS) - The FTS development team received a DLA Scissors Award which recognized their contributions to the principles of the National Performance Review. The FTS team brought a system on-line, which linked the property accountability system, local contracting system and financial processes system into a cohesive, user-friendly program, and eliminating duplication of effort.

3) Empower Employees

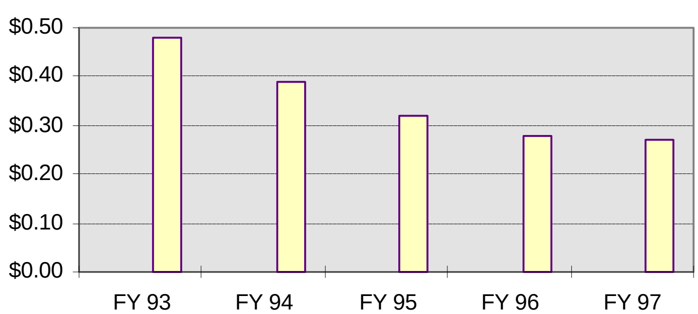
Training - Moving into a highly competitive, automated environment requires a different skill mix within the organization. DRMS met this challenge by partnering with the Union to develop and execute training programs that meet the needs of the organization and the employees. Training emphasis in FY 97 was on financial skills, marketing, merchandising, advertising, process improvement, and computer proficiency. DRMS also developed and fielded the first in a series of business education courses, "The Challenge: The Choice to Change". This course will be provided to all DRMS employees to help them understand, deal with and contribute to the challenges of downsizing, reengineering and privatization. Training efforts will continue through formal classes, self-development and mentoring leading to empowerment.

IMPAC Program - DRMS has aggressively undertaken the revolution in business practices through the use of the International Merchant Purchase Authorization Card (IMPAC). DRMS now has approximately 180 cardholders worldwide. FY 97 saw a 35 percent increase in the number of purchases over FY 96, totaling over $2.5 million. It is estimated that average savings of $63.50 per purchase can be realized by using the IMPAC credit card versus Purchase Orders and Blanket Purchase Agreements. In FY 97, this provided savings of approximately $0.6 million. New billing procedures directed by the Under Secretary of Defense Comptroller have been implemented to include payment certification at the approving official level instead of HQ DRMS level, and summary-level recording of financial data (i.e. one line of accounting procedures).

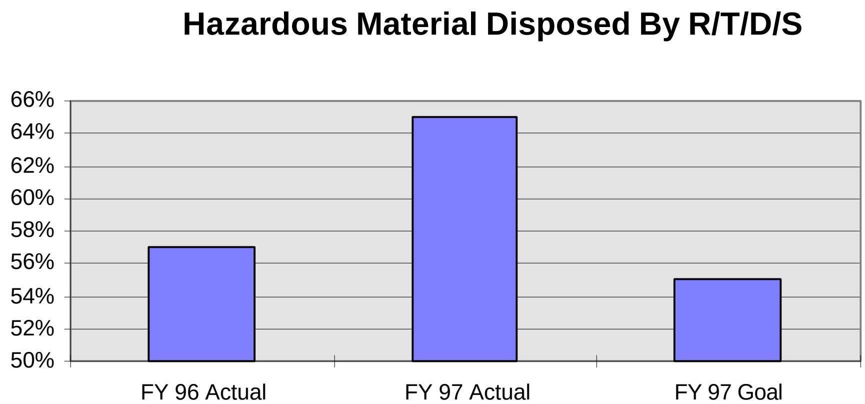
4) Increase readiness at reduced cost

Reduced Cost of Hazardous Waste Disposal - For the fourth year in a row, DRMS reduced customers' costs by reducing the cost of hazardous waste disposal. Through innovative contracting techniques, improved automation and improved hazardous waste management and identification, DRMS reduced the average disposal cost from $0.28 per pound to $0.27 per pound. This reduced the cost to DRMS' customers by an additional 17 percent from FY 96 to FY 97 ($94 million in FY 96 to $78 million in FY 97).

Price Per Pound Of Hazardous Waste Disposed



Hazardous Material Disposed Through R/T/D/S – This measure is calculated as the percent of total hazardous material dispositions made by reutilization, transfer, donation or sale.



	FY 96 Actual	FY 97 Actual	FY 97 Goal
Hazardous Material Disposed through R/T/D/S	57.0%	65.0%	55.0%

This measure results in a cost avoidance for DRMS' customers. When hazardous material is disposed by R/T/D/S, the generators of the material avoid the cost of disposal by service contract. DRMS improved this measure through dedicated efforts to find R/T/D/S customers for hazardous material whenever environmentally permissible.

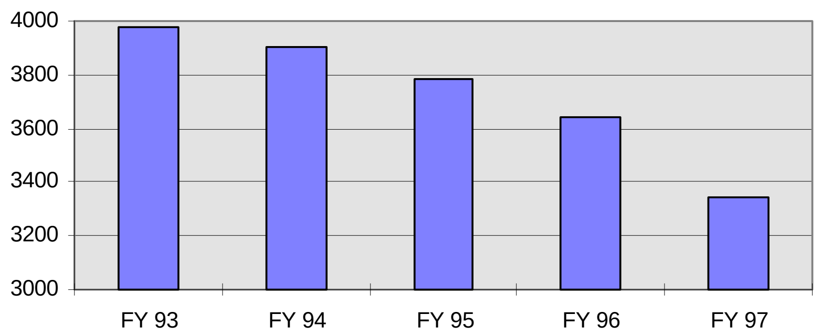
Interservice Support Agreement (ISA) Cost Reductions - As a result of a determined and conscientious effort at all levels of DRMS during FY 97, ISA costs were reduced $1.7 million from FY 96. Over $0.5 million of that amount was at the HQ DRMS level as a result of the closure of the International Sales Office, negotiated reductions from FY 96 costs and the reduced usage of support. The zones for the DRMO support worldwide accomplished the remaining amount of almost $1.2 million. This came about due to DRMO closures, negotiated reductions and reduced usage.

Precious Metals Recovery - DRMS deposited precious metals worth over $8 million with the Defense Industrial Supply Center (DISC) in FY 97. These metals are reused by DISC to avoid the cost of procuring new material. The precious metals recovery program was performed for just over $6.5 million in direct costs.

Activity Based Costing - DRMS partnered with KPMG Peat Marwick LLP to implement Activity Based Costing (ABC) to better measure the true cost of its processes. The DRMS ABC application assigns labor and non-labor costs to activities based on the level of effort spent on each activity. Activity costs are then directed to processes (reutilization, transfer, donation, sales, etc.). Finally, the process costs are directed to Federal Supply Class (FSC), giving DRMS visibility of the cost of disposing of individual commodities by the type of disposal method used (i.e., the cost to reutilize a vehicle, the cost to sell an engine, etc.). The ABC data will be used to identify areas for cost reduction, to support cost recovery billings to the military services and in making privatization decisions.

Streamlining the Workforce - DRMS continued to streamline the workforce to reduce operating costs and keep the size of the workforce commensurate to the declining level of disposal workload. Reengineering efforts such as the Recycling Control Point (RCP) facilitated the streamlining. Under the RCP process excess property disposal is performed electronically, eliminating the need for physical handling and movement.

DRMS Civilian Endstrength



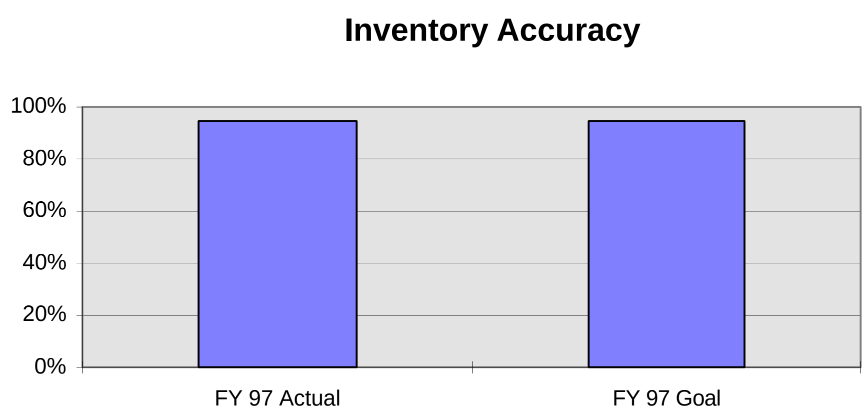
Privatization - DRMS actively pursues the privatization of non-core processes to private industry to increase the net return to the customer through revenue enhancement and/or cost reduction. Significant accomplishments in FY 97 were:

Optimum Marketing Initiative (OMI) – DRMS awarded three contracts for the sale of excess Medical, Dental and Veterinary property. The contracts are structured to increase the revenue from the sale of the property and reduce DRMS' operating costs. Under the OMI concept, the contractor purchases the property from DRMS for 75 percent of the return historically received for the property. Upon subsequent resale, the contractor shares proceeds received over and above the 75 percent baseline price. Early results show a positive return to DRMS from this privatized sales process.

Enterprise Management (EM) – DRMS awarded a contract to Arthur Andersen LLP for preparation of an Enterprise Management Implementation Plan. This plan will address the comprehensive range of issues involved in changing DRMS' business operations to successfully implement the vision of "Moving information - not property". The EM Implementation Plan will be presented to Congress in early FY 98. DRMS also awarded a contract to Kormendi-Gardner

Partners (KGP) to research and identify assets that could be included in a joint venture arrangement, construct a suitable joint venture and assist in the identification of potential investors and/or partners.

Inventory Accuracy – DRMS uses the DLA Depot standards and methods to maintain inventory control and accuracy over disposal assets for the following types of property - hazardous material and hazardous waste, demilitarization required, "V" coded precious metals, pilferable (sensitive), and remaining useable property.



	FY 96 Actual	FY 97 Actual	FY 97 Goal
Inventory Accuracy	NA	95.0%	95.0%

DRMS met the FY 97 goal due to consistent emphasis and review, improved on-site quality visits, self-assessments by all DRMOs, and immediate corrective action at those sites needing assistance.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

DLA began preparing financial statements in accordance with the Act in 1992 and believes the information reported continues to improve. Nevertheless, several challenges remain and are discussed in the following paragraphs. During FY 94, DLA established short- and long-term goals for creating a comprehensive financial management system, and undertook a number of initiatives to identify and assess the financial statement impact of current accounting practices. These goals and initiatives enabled DLA to establish milestones to improve financial data accuracy and reliability. DLA has worked diligently to reach these milestones during FY 95, FY 96 and FY 97, with significant progress achieved in the areas of accounts payable and receivable, property, plant and equipment and financial analysis. This process continues in FY 98.

The Federal accounting community continues to establish “Generally Accepted Accounting Principles” for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of “Generally Accepted Accounting Principles” will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

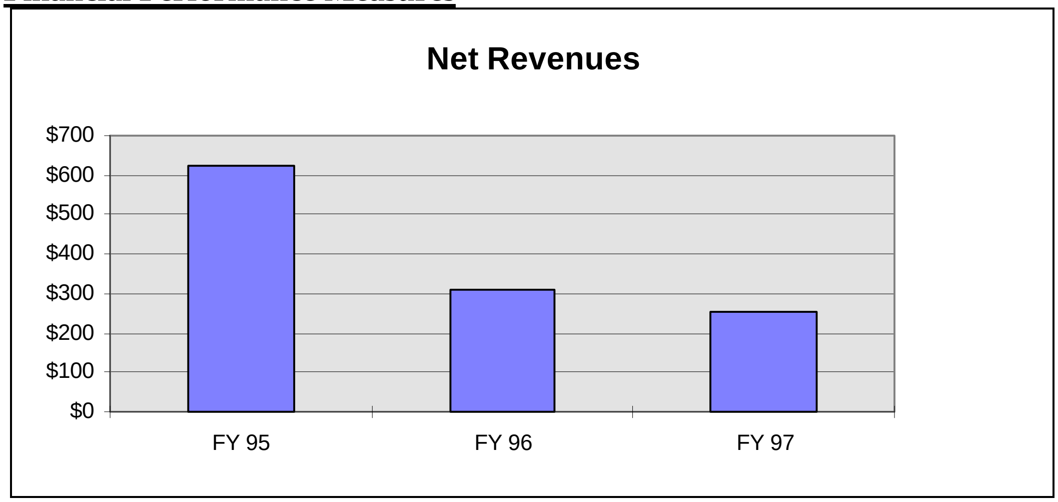
"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

Traditional fund management, prior to DWCF, did not require the calculation of depreciation on property, plant and equipment (PP&E). As a result, PP&E was not always accurately reflected in the accounting records and, through FY 94 DLA, had not properly accounted for all the PP&E for which it was responsible. Significant progress has been made toward correcting this situation. In conjunction with the implementation of the Defense Property Accounting System (DPAS), all DLA field activities undertook the review and revision of their property records. Additionally, DLA began validating the records of sites with significant balances and/or discrepancies. DPAS implementation was substantially completed through the end FY 97.

Accounts Receivable and Accounts Payable include “undistributed” amounts which represent the differences between collections and disbursements on the general ledger and those which have been reported through the finance network/ACRS cash report. The Department has recognized the “undistributed” problem and is currently pursuing corrective actions. The Defense Finance and Accounting Service (DFAS) site in Columbus, OH, which supports DLA, has also recognized this problem and has assigned accounting personnel for each DLA activity group the responsibility of reconciling the finance network and ACRS cash figures.

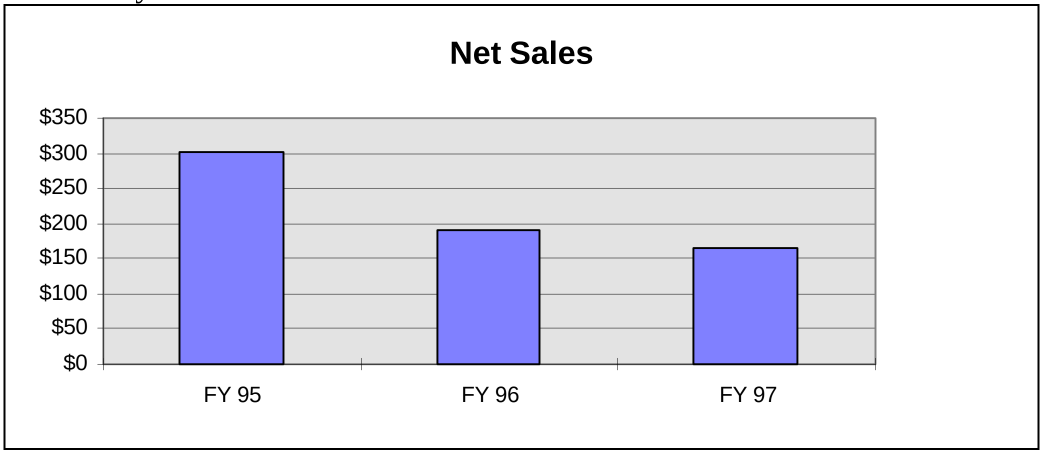
Accounts Receivable and Accounts Payable include over-aged and negative amounts that are currently under investigation for system and processing deficiencies. Significant progress has been made in resolving some of the over-aged amounts within Accounts Receivable and Accounts Payable as a result of continuing emphasis on Unmatched Disbursements and Negative Unliquidated Obligations.

Financial Performance Measures



	FY 95	Change	FY 96	Change	FY 97
Net Revenues (Millions)	$ 622	-50.0%	$ 308	-18.0%	$ 253

The decline in revenue from FY 96 to FY 97 was due to decreased sales proceeds ($25 million) and decreased reimbursements ($30 million). The decrease in reimbursements was primarily due to a decrease in the cost of hazardous waste disposal contracts. The primary reason for the decline in revenue from FY 95 to FY 96 was the elimination of cost recovery billings to the military services.



	FY 95	Change	FY 96	Change	FY 97
Net Sales (Millions)	$ 302	-37.0%	$ 191	-13.0%	$ 166

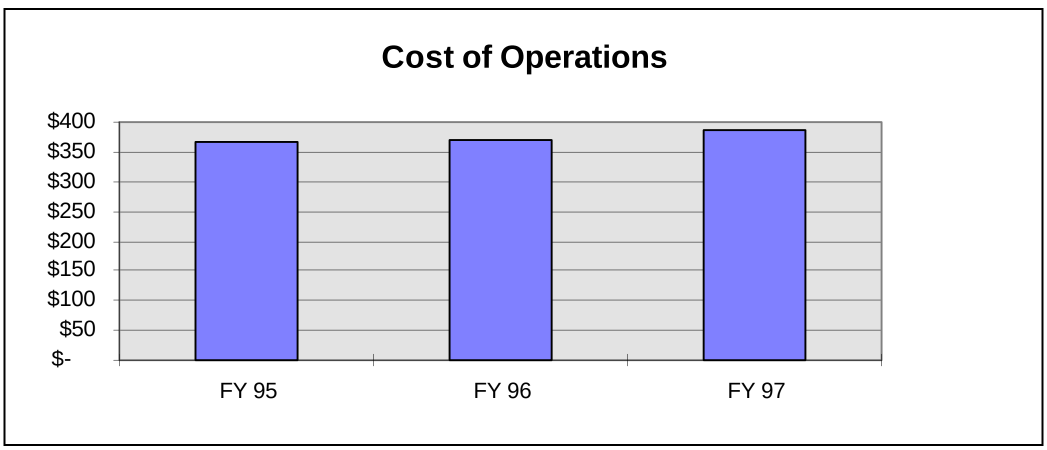
FY 97 net sales decreased from FY 96 due to two major factors: decreased disposal workload and an increased percentage of property being disposed by R/T/D.

Overview

DRMS received property totaling $21.5 billion in transfer value in FY 97. This was an eight percent decrease from property received in FY 96 ($23.3 billion). The percent of incoming property that was disposed by R/T/D also increased from FY 96 (FY 96 - 17 percent; FY 97 - 18 percent). The combination of decreased generations and an increased rate of R/T/D resulted in a decrease in the amount of property available to sell to the public (FY 96 - $8.4 billion; FY 97 - $6.5 billion).

DRMS achieved a Rate of Return (ROR) of 2.42 percent for property sold in FY 97, a 23 percent increase from the FY 96 ROR of 1.97 percent. This increase was attributable to selling large volumes of property having a high resale value, such as industrial plant equipment, as well as improved sales processes and partnering with private industry through the OMI sales initiative. At an ROR of 2.42 percent, had the volume available for sale been consistent with FY 96, DRMS would have realized an additional $46 million in net sales. This would have increased net sales to $212 million, a ten percent increase from FY 96.

Another contributing factor to the decrease in net sales in FY 97 was the increase in the volume of property sold on a reimbursable basis. DRMS reimbursed a total of $30 million in FY 97 compared to $28 million in FY 96.



	FY 95	Change	FY 96	Change	FY 97
Cost of Operations (Millions)	$ 368	0.0%	$ 369	5.0%	$ 386

The five percent increase in the cost of operations from FY 96 to FY 97 was due to increased investment in information technology initiatives. This investment will assist DRMS in the continuing improvement of business operations and move DRMS closer to the vision of moving information rather than property.

Operating Expenses
(Millions)

	FY 95	Change	FY 96	Change	FY 97
Labor	$ 154.0	2%	$ 157.0	-5%	$ 149.0
% of total expense	*42%*		*42%*		*38%*
R/T/D	$ 10.0	0%	$ 10.0	19%	$ 12.0
% of total expense	*3%*		*3%*		*3%*
Sales and Marketing	$ 32.0	4%	$ 34.0	-7%	$ 32.0
% of total expense	*9%*		*9%*		*8%*
Environmental and Related Contractual Support	$ 127.0	-9%	$ 116.0	0%	$ 116.0
% of total expense	*34%*		*31%*		*30%*
General and Administrative	$ 108.0	-9%	$ 98.0	16%	$ 114.0
% of total expense	*29%*		*27%*		*30%*

Note: Figures presented show the direct cost of major programs. Because labor is included in the program costs as well as presented as a separate line, percentages of total expense do not add to 100. Figures do not include all operating costs.

Labor costs decreased five percent from FY 96 to FY 97 as a result of streamlining the DRMS workforce. Streamlining will continue as DRMS implements additional process improvements and base closures actions proceed. Labor costs as a percentage of total expense also decreased for the first time in FY 97. The increase in R/T/D expense in FY 97 is due to increased transportation costs for shipping property to reutilization customers. The cost of sales and marketing decreased in FY 97 as a result of DRMS' OMI sales initiative piloted in FY 97 for Medical, Dental and Veterinary property. Under this initiative, the private sector partner is responsible for all costs associated with selling the property. The cost of the environmental program was stable from FY 96 to FY 97. While DRMS reduced the cost of hazardous waste disposal contracts, this decrease was offset by an increase in the amount of third party clean up costs. General and administrative costs increased in FY 97 due to increased investments in information technology.

Additional Revenue Information

DRMS generated significant revenues from the sale of property under special programs that require reimbursement of 100 percent of the sales proceeds to the activity that generated the excess property. These reimbursable proceeds are used to support the military services' morale, recreation and welfare projects and/or to offset operating costs of the generating activity. Had these proceeds been included in DRMS' Net Income, the loss would have been reduced from ($134) million to ($72) million. These revenues are illustrated below:

Reimbursable Revenue
(Millions)

MWR Programs *	$	14.0
Reimbursable Sales **	$	16.0
Precious Metals ***	$	8.0
Suspense Accounts ****	$	24.0
Total	$	62

* Proceeds reimbursed through the Resource, Recycling and Recovery Program
** Primarily reimbursements of proceeds from industrially funded property
*** Value of refined precious metals deposited to DISC
**** Sales proceeds collected, waiting for final disbursement

Financial Performance Measures

Financial performance measures provide additional information on the efficiency and effectiveness of activity group operations. The DRMS financial performance measures are identified below:

Cost per Dollar of Disposal: Reutilization, Transfer, Donations and Sales (R/T/D/S) – Total proceeds from excess items sold to the public, regardless of which account receives the actual cash, are included in the DRMS workcount. Also included is 4.8 percent of the acquisition value of items that are reutilized, transferred or donated. Some hazardous material and waste is disposed of through the R/T/D/S processes and is included in this workcount, not in the hazardous unit cost. The cost of operating the R/T/D/S programs is then divided by this workload figure to calculate the unit cost.

Cost Per Line Item of Hazardous Disposal

The total cost of operating the environmental program is divided by the total line items of hazardous waste disposed by service contract. The disposal contract lines may consist of multiple items, so this measure is not reflective of cost per item disposed.

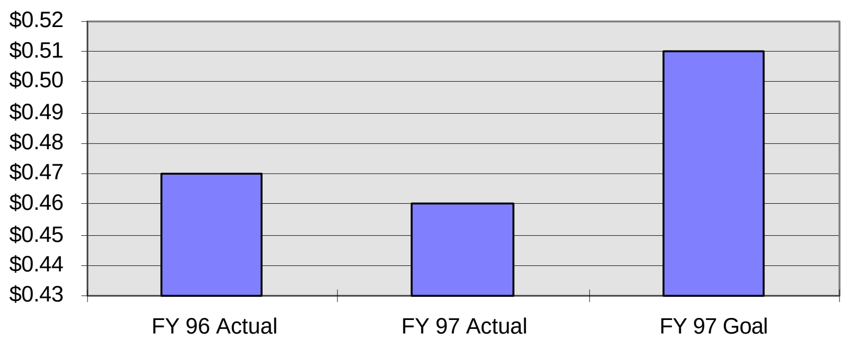
Return on Investment (ROI)

Return on Investment is calculated as total sales proceeds from the sale of useable and scrap property divided by the acquisition value of the property sold. Since scrap has no true acquisition value, the acquisition value is presumed to be equal to the proceeds received from the sale of the scrap.

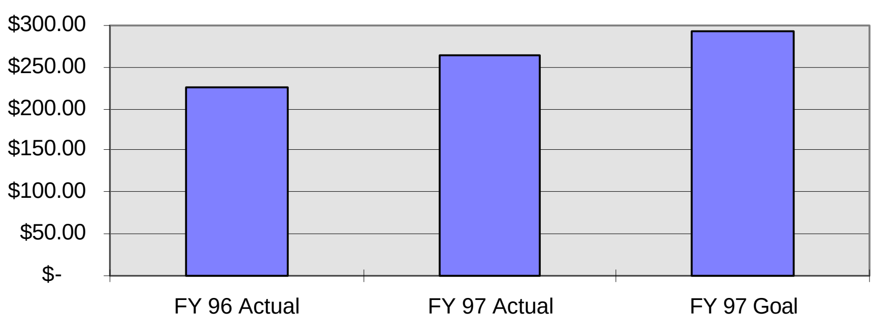
Analysis of Financial Performance Measures

Financial performance measure results for DRMS were as follows:

R/T/D/S Unit Cost



Hazardous Unit Cost

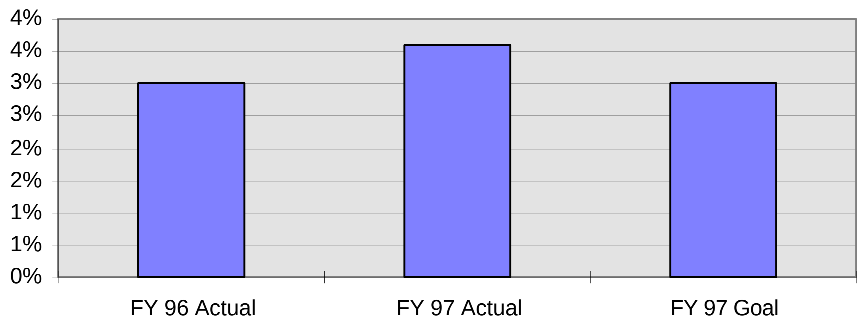


	FY 96 Actual	FY 97 Actual	FY 97 Goal
Cost/Dollar of Disposal R/T/D/S	$ 0.47	$ 0.46	$ 0.51
Cost/Line of Hazardous Disposal	$ 225.23	$ 265.06	$ 293.71

Overview

DRMS brought FY 97's unit cost in below goal by reducing costs from initial projections. The R/T/D/S unit cost decreased from FY 96 due to the OMI sales initiative. The hazardous disposal unit cost increased from FY 96 due to fewer line items of hazardous waste disposed by service contract. A primary reason for this decrease in hazardous waste disposal is more hazardous property being disposed by R/T/D and sale. While this increased DRMS' unit cost, it provides a substantial cost avoidance to the hazardous property-generating customers by eliminating the cost of ultimate disposal.

Return On Investment



	FY 96 Actual	FY 97 Actual	FY 97 Goal
Return on Investment (ROI)	3.0%	3.6%	3.0%

DRMS exceeded the ROI goal due to selling large volumes of property having a high resale value, such as industrial plant equipment, improved sales processes and partnering with private industry through the OMI sales initiative

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

REUTILIZATION AND MARKETING

PRINCIPAL STATEMENTS

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($93,305)	($85,983)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	58,151	78,574
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	20,429	25,641
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	234	663
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	126,444	124,170
l. War Reserves	0	0
m. Other Entity Assets	196,900	156,644
n. Total Entity Assets	$308,853	$299,709
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$23,762	$21,937
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	**1997**	**1996**
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$23,762	$21,937
3. Total Assets	$332,615	$321,646
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$63,583	$32,120
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	23,762	21,937
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	47,418	44,052
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	942	488
(b) Annual Accrued Leave	9,648	9,615
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	56,573	64,124
c. Total Liabilities Covered by Budgetary Resources:	$201,926	$172,336

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$201,926	$172,336
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	(33,730)	316,153
c. Cumulative Results of Operations	164,419	285,927
d. Other	0	(452,770)
e. Future Funding Requirements	0	0
f. Total Net Position	$130,689	$149,310
8. Total Liabilities and Net Position	$332,615	$321,646

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	166,427	191,296
b. Intragovernmental	86,765	117,015
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$253,192	$308,311
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$358,101
10. Cost of Goods Sold (Note 24)		
a. To the Public	236,353	0
b. Intragovernmental	139,902	0
11. Depreciation and Amortization	9,725	10,770
12. Bad Debts and Writeoffs	40	2
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	143	18
14. Other Expenses (Note 25)	0	0
15. Total Expenses	$386,163	$368,891
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($132,971)	($60,580)
17. Plus (Minus) Extraordinary Items (Note 26)	(825)	(2,500)
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($133,796)	($63,080)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$149,310	$438,646
20. Adjustments (Note 27)	12,288	12,704
21. Net Position, Beginning Balance, as Restated	$161,598	$451,350
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(133,796)	(63,080)
23. Plus (Minus) Non Operating Changes (Note 28)	102,887	(238,960)
24. Net Position, Ending Balance	$130,689	$149,310

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($133,796)	($63,080)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	25,635	(8,262)
4. Decrease (Increase) in Other Assets	429	20
5. Increase (Decrease) in Accounts Payable	34,829	(24,293)
6. Increase (Decrease) in Other Liabilities	(7,065)	7,526
7. Depreciation and Amortization	9,725	10,770
8. Other Unfunded Expenses	0	(9,752)
9. Other Adjustments	12,301	12,704
10. Total Adjustments	$75,854	($11,287)
11. Net Cash Provided (Used) by Operating Activities	($57,942)	($74,367)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(35,363)	(11,616)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($35,363)	($11,616)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(85,983)	224,793
23. Net Appropriations	$85,983	($224,793)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Reutilization And Marketing
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	$85,983	($224,793)
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($7,322)	($310,776)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(85,983)	224,793
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($93,305)	($85,983)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$16,893	($14,167)

The accompanying notes are an integral part of these statements.

Principal Statements

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

REUTILIZATION AND MARKETING

FOOTNOTES

Footnotes

DEFENSE WORKING CAPITAL FUND
DEFENSE REUTILIZATION AND MARKETING SERVICE
NOTES TO THE PRINCIPAL STATEMENTS
AS OF 30 SEPTEMBER 1997

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) Defense Reutilization and Marketing Service (DRMS), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of DRMS in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, DRMS accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the DRMS financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

The overall mission of the DRMS is to provide reutilization services to DoD. DRMS accomplishes its mission through the individual Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal bearing materiel.

Excess items not reutilized within DoD are screened for possible transfer to other Federal agencies or for donation to local governments. Surplus property not reutilized is offered for sale to the public on a competitive basis. This mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5N.

For FY 97, DRMS recognized $5.3 million in indirect costs and reimbursed Supply Management. Through FY 96, these financial statements did not include indirect costs of the Agency. These costs were included in Supply Management statements and were not allocated to DRMS for purposes of financial accounting and reporting.

The CFO Act requires DRMS, as a business entity under DWCF, to provide audited financial statements. FY 97 represents the sixth year that DRMS has prepared financial statements as required by the CFO Act.

C. Budgets and Budgetary Accounting:

DRMS receives an annual operating budget that provides total cost authority in unit cost terms. Unit Cost Resourcing provides the operating expense authority for such items as salaries, nonlabor expenses, and materiel. Cost authority or the amount "earned" depends on the actual work load times the unit cost goals.

DRMS also receives a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. DRMS may not have adequate accounting systems, procedures, and controls needed to account for public sales on a purely accrual basis. Therefore, adjustments were made in an attempt to report DRMS revenue on an accrual basis of accounting. Information in the accounting system - The Defense Business Management System - includes information from DRMS' Daily DWCF Report. The DRMS DWCF Report is not an accrual based accounting system. As such, to convert cash proceeds collected on public sales to an accrual based revenue amount, uncollected revenues not yet reported in the DRMS Daily DWCF Report were added. The uncollected revenue information resides in other feeder systems and reports. One such contracting system is the Daisy National Sales Program (DNSP) system. Currently, the DNSP system is not adequate to support the requirement for accrual based revenue. DRMS management is currently reviewing the DNSP system capabilities and the providers in place to capture revenue. Transactions are also recorded on a budgetary basis. Budgetary accounting facilities compliance with legal constraints and controls over the use of Federal funds.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. However, the Office of the Secretary of Defense (OSD) has not issued official accounting guidance regarding this reporting requirement and current accounting systems used to record earnings, expenses, collections and disbursements have not been designed to identify and retain this information at the appropriate detail level. Therefore, in order to comply with this requirement, estimated calculations will be provided. Note 29 identifies the eliminations in general terms; however, due to our inability to capture the necessary financial data, certain schedules have been completed in full while others are incomplete.

E. Revenues and Other Financing Sources:

Revenues and financing sources for DRMS consist of proceeds from the sale of property to the public along with reimbursements from the hazardous, toxic disposal, and the precious metals recovery programs. Revenue is not earned for the reutilization, transfer, and donation programs.

DRMS generated an additional $62 million in revenues from the sale of property that is not reflected in the Statement of Operations. These revenues were transferred to the activities that generated the excess property to support their morale, recreation and welfare projects and/or to offset operating costs. Had this revenue been included in the Statement of Operations, revenues from the sale of goods and services to the public would have been $228 million and the net shortage would have decreased to $(72 million).

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, these financial statements do not include DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

Finally, DRMS's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DRMS does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM) for CSRS and FERS.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by OSD, DRMS obtains the cash receipt and disbursement information from the finance network/ACRS cash report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/ACRS cash report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

DRMS does not transact business in foreign currencies.

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/ACRS cash report. As a result of the transfer of accounting and management responsibilities, DLA has had limited capability to reconcile these differences for 1994, 1995, 1996 and 1997.

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies.

Allowances for uncollectible amounts have not been established to reflect the accounts receivable balances which have been referred by the DRMS International Sales Office (ISO) to DRMS headquarters for collection. Should DRMS headquarters be unsuccessful in collection attempts, these balances will be referred to the Defense Finance and Accounting Service for appropriate action.

J. Loans Receivable:

DRMS does not lend money.

K. Inventories:

DRMS does not have inventory. Disposal property is classified and reported as "Other Entity Assets" in accordance with DoD reporting guidance. This property is not "primarily" held for sale and therefore, does not meet the definition of inventory for classification purposes.

L. Investments in U.S. Government Securities:

DRMS does not invest in U.S. Government securities.

M. Property, Plant and Equipment:

DRMS capitalizes equipment according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, greater than or equal to $50,000 for FY 95, and greater than or equal to $100,000 for FY 96 and FY 97.

- Estimated useful life is two years or more.

Capital assets in DRMS are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. The capital assets for DRMS include such items as ADP equipment, software, and industrial equipment.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties, in all likelihood, would be fully depreciated, resulting in no impact to these financial statements.

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the goods and/or services are received.

O. Leases:

Not applicable.

P. Contingencies:

DRMS may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect DRMS' operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian employee annual leave is accrued as earned and the accrued hours are reduced as leave is taken. The change to unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year, the balance in the accrued annual leave account is adjusted to reflect changes in those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of invested capital, cumulative results of operations, future funding requirements, and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to DRMS.

T. Treaties for Use of Foreign Bases:

DRMS has not entered into treaties for the use of foreign bases.

U. Comparative Data:

The financial statements present FY 96 and FY 97 amounts.

V. Undelivered Orders:

DRMS is obligated for goods and services that have been ordered but not yet received. Total undelivered orders amounted to $70.2 million as of September 30, 1997.

Note 2. Fund Balances with Treasury

A. Fund and Account Balances:

Not applicable.

B. Working Capital Fund Activities Below USD(C) Level:

Entity Assets:

	1997	1996
Beginning Balance	$(85,983)	$224,793
Transfers of Cash to Others	0	(224,793)
Transfers of Cash from Others	85,983	0
Funds Collected	270,839	288,815
Funds Disbursed	(364,144)	(374,798)
Ending Balance	$(93,305)	$(85,983)

C. Working Capital Fund Activities and All Other Funds and Accounts:

Non-Entity Assets:

	Funds Collected	Funds Disbursed
Beginning Balance	$174,898	$152,961
Funds Collected	51,414	0
Funds Disbursed	0	49,589
Ending Balance	$226,312	$202,550

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/ACRS cash report and Service listings. The cumulative difference between cash collections in the ACRS cash report and the general ledger amounted to $29.2 million. This amount is reported as an increase to accounts receivable. The cumulative difference between cash disbursements in the ACRS cash report and the general ledger amounted to $44.8 million. This amount is reported as a decrease in accounts payable. See Note 31G for development of these figures.

Non-entity assets represent amounts included in temporary suspense which are forwarded to non-DWCF recipients. That balance is stated in Note 2C.

Note 3. Cash, Foreign Currency and other Monetary Assets

Not applicable.

Note 4. Investments

Not applicable.

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Estimated Collectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$58,151	$0	n/a	$58,151
Governmental	20,429	0	n/a	20,429
B. Non-Entity Receivables:				
Intragovernmental	0	0	n/a	0
Governmental	0	0	n/a	0

C. Other Information:

Entity receivables include $29.2 million of Undistributed Receivables (Intragovernmental). See Note 31G for development of this figure.

The cumulative difference between cash collections in the ACRS cash report and the general ledger amounted to $29.2 million. This amount is reported as an increase to accounts receivable. As a result of the transfer of accounting and management responsibilities, DLA has had limited capability to reconcile these differences.

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies.

Note 6. Other Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Note 8. Inventory, Net

Not applicable.

Note 9. Work in Process

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

Not applicable.

Note 11. Stockpile Materials

Not applicable.

Note 12. Seized Property

Not applicable.

Footnotes

Note 13. Forfeited Property, Net

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not applicable.

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land:	-	-	$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements:	SL	11-20	138,291	78,967	59,324
C. Military Equipment:	SL	6-10	62,445	44,687	17,758
D. ADP	-	-	0	0	0
E. Equipment	SL	6-10	12,285	3,389	8,896
F. Assets under Capital Lease:	-	-	0	0	0
G. Other:	-	-	0	0	0
H. Natural Resources:	-	-	0	0	0
I. Construction in Progress:	-	-	40,466	0	40,466
Total:			$253,487	$127,043	$126,444

*Key:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digit	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	OT - Other (describe)

J. Other Information:

Capital assets in DRMS are accounted for in the Defense Property Accounting System (DPAS) and Defense Business Management System (DBMS).

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment. As a result, property, plant and equipment was not always reflected on the accounting records.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Note 16. Debt

Not applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) Suspense Account	$0	$23,762	$23,762
2. Governmental			
(1) Deferred Revenue	$56,573	$0	$56,573

B. Other Information:

Suspense Account balance represents amounts included in temporary suspense which are forwarded to non-DWCF recipients.

Deferred revenue represents amounts received for hazardous waste disposal which has not yet been performed.

C. Other Liabilities Not Covered by Budgetary Resources:

Not applicable.

D. Other Information:

Not applicable.

Footnotes

Note 18. Leases

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

DRMS' civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DRMS does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

Note 20. Net Position

	Revolving Funds	Trust Appropriated Funds	Trust Appropriated Funds	Total
A. Unexpended Appropriation:				
(1) Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital:	(33,730)	0	0	(33,730)
C. Cumulative Results of Operations:	164,419	0	0	164,419
D. Other:	0	0	0	0
E. Future Funding Requirements:	0	0	0	0
F. Total:	$130,689	$0	$0	$130,689

G. Other Information:

Invested Capital is comprised of Property Received Without Reimbursement of $136 million, DRMS ISO Disposal Inventory of $197 million, and Cash Transfers of $(367 million).

Note 21. Taxes

Not applicable.

Note 22. Other Revenue and Financing Sources

Not applicable.

Note 23. Program or Operating Expenses

			1997	1996
A.	**Operating Expenses by Object Classification:**			
	(1)	Personal Services and Benefits	$0	$156,790
	(2)	Travel and Transportation	0	7,778
	(3)	Rental, Communication and Utilities	0	6,880
	(4)	Printing and Reproduction	0	1,793
	(5)	Contractual Services	0	169,399
	(6)	Supplies and Materials	0	2,796
	(7)	Equipment not Capitalized	0	12,665
	(8)	Grants, Subsidies and Contributions	0	0
	(9)	Insurance Claims and Indemnities	0	0
	(10)	Other	0	0
	(11)	Total Expenses by Object Class	$0	$358,101

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

As directed by DFAS Headquarters, operating expenses for FY 97 have been considered on Line A.2 of Cost Of Goods and Services Sold of Note 24, rather than as Operating Expenses as declared in FY 96.

Note 24. Cost of Goods and Services Sold

A. Cost of Services Sold:	
1. Beginning Work-in-Process	$0
2. Plus: Operating Expenses	376,255
3. Minus: Ending Work-in-Process	0
4. Minus: Completed Work for Activity Retention	0
Cost of Services Sold	$376,255

DRMS incurred $16 million in operating expenses to generate $62 million in revenues which were transferred out to DRMS customers. This $16 million is included in the operating expenses reported in the Statement of Operations, while the $62 million in revenue is not included.

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

Not applicable.

C. Cost of Goods Sold from Inventory (using Historical Cost):

Not applicable.

D. Other:

	Operating Expenses by Object Classification:	1997	1996
(1)	Personal Services and Benefits	$148,635	$0
(2)	Travel and Transportation	11,502	0
(3)	Rental, Communication and Utilities	6,218	0
(4)	Printing and Reproduction	2,917	0
(5)	Contractual Services	192,187	0
(6)	Supplies and Materials	3,613	0
(7)	Equipment not Capitalized	11,183	0
(8)	Grants, Subsidies and Contributions	0	0
(9)	Insurance Claims and Indemnities	0	0
(10)	Other	0	0
(11)	**Total Expenses by Object Class**	$376,255	$0

FY 97 expenses are overstated by approximately $5.0 million due to problems reconciling prior year expenses for Real Property Maintenance (RPM) projects.

Note 25. Other Expenses

Not applicable.

Note 26. Extraordinary Items

During FY 97, DRMS recorded an expense of $825 thousand to settle litigation over a claim regarding the misrepresentation of weight and metallurigical content of 535 M551 AR/AAV tanks located at Anniston Army Depot. This expense is unusual in nature and not expected to recur.

Note 27. Prior Period Adjustments

A. Prior Period Adjustments:

		1997
(1)	Incorrect reversal of the FY 95 DLA directed adjustment to capitalized assets which was reversed in FY 96 due to the activation of DPAS. A portion of the reversal which should have been made to Depreciation Expense was erroneously made to Invested Capital.	$22,896
(2)	GBL and Postage expenses pertaining to FY 96	(4,117)
(3)	Correction to posting of prior years' Travel and PCS expenses. Understated by the amount of recouped advances.	(446)
(4)	Facilities, Real Property Maintenance and Minor Construction expenses erroneously charged to FY 97, which should have been expensed to prior years.	(6,033)
(5)	To correct an error in posting the transfer of DLA Pacific activity in FY 96.	(12)
	Total	12,288

B. Other Information:

Not applicable.

Note 28. Non-Operating Changes - (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Prior Year Fund Balance w/ Treasury	$85,983	$0
(b) Equipment Received w/o Reimbursement	81,443	0
(c) Disposal Property	40,256	0
(2) Donations Received	0	0
(3) Other Increases	0	0
(4) Adjustment for DLA Pacific	12	0
(5) Total Increases	$207,694	$0
B. Decreases:		
(1) Transfers-Out:		
(a) Prior Year Fund Balance w/ Treasury	0	224,793
(b) Equip Transfered Out w/o	104,807	10,593
Reimbursement	0	3,574
(c) Disposal Property		
(2) Donations	0	0
(3) Other Decreases - DLA Pacific	0	0
(4) Total Decreases	104,807	238,960
C. Net Non-Operating Changes (Transfers):	$102,887	$238,960

D. Other Information:

Not applicable.

Note 29. Intrafund Eliminations

Schedule A:

Not applicable.

Schedule B:

Selling Activity:

	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
DLA - WCF - DRMS		$6,167	$13,265	$0	$11,878
TOTAL		$6,167	$13,265	$0	$11,878

Customer Activity:

	Reimb Source Code	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursement
Intra DLA Support	100				
Intra DLA Support	111	3,275	3,063	0	$0
DoD-Other Defense Agency	400				
DLA Btwn DLA	414	1,133	3,997	0	4,652
DLA DPDS	415	1,759	6,180	0	7,226
Intra DLA-St F	418	0	25	0	0
TOTAL		$6,167	$13,265	$0	$11,878

Footnotes

Schedule C:

Selling Activity:

	Reimb Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
DLA - WCF		$50,682	$72,852	$56,573	$89,520
TOTAL		$50,682	$72,852	$56,573	$89,520

Customer Activity:

	Reimb Source Code	Column A Accts Pay	Column B Expenses	Column C Advances	Column D Disbursement
DoD -Oth Def Agy	400	0	0	0	0
Navy, Marines	411	217	780	0	891
Army	412	0	(34)	0	0
Air Force	416	0	35	0	0
Oth Def Agencies	417	0	1	0	0
Haz Mat-Navy	421	10,073	35,503	56,573	41,377
Haz Mat-Army	422	6,506	22,978	0	26,726
Haz Mat-Air Force	423	4,385	15,443	0	18,016
Haz Mat-Oth Agy	424	24	57	0	99
Foreign Mil Sales	600	0	0	0	0
Mat & Svces	612	173	(2,022)	0	1,676
Admin Chges	617	(10)	111	0	(95)
Other		29,314	n/a	n/a	830
TOTAL		$50,682	$72,852	$56,573	$89,520

Schedule D:

Selling Activity:

	Reimbursable Source Code	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
DLA - WCF - DRMS		$1,302	$648	$0	$1,577
TOTAL		$1,302	$648	$0	$1,577

Customer Activity:

	Reimb. Source Code	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursement
Other Govt Agcys - Oth Def Agencies	800	0	0	0	0
Coast Guard	816	3,594	1,789	$0	4,353
DOE Restrict. Strategic Petrol Reserve	821	0	5	0	0
All Others	822	(2,292)	(1,146)	0	(2,776)
TOTAL		$1,302	$648	$0	$1,577

The Trial Balance displays earnings at a very low detail level, thus allowing DFAS-CO to show Expenses at the lowest Customer Activity Level as shown above. However, as Accounts Receivable and Collections are not reflected at the same detail level, Accounts Payable and Disbursements have been estimated based on the percentage of detail level earnings to total earnings.

Earnings/Revenue on the Acctg Rpt(M)725 will not agree with Earning /Revenue reported on the CFOs for the following reasons:

a. After the final Acctg Rpt(M)725 for FY 96 had been submitted and after extensive discussion with DLA and DFAS HQ, it was decided to declare $64,124 as Unearned Revenue rather than Current Revenue on the CFOs for FY 96. This meant that revenue on the FY 96 SF 133 and Acctg Rpt (M)725 had been overstated, and since carry forward balances cannot be changed, current year revenue in the SF 133 and (M)725 was decreased.

b. Because the formula/reconciliation on Line 15 - Outlays of the SF 133 incorrectly assumes that reductions to Accounts Receivable result only from cash transactions and no consideration is made for reductions to Accounts Receivable as a result of bad debt write-offs, earnings on the SF 133 and consequently the Acctg Rpt(M)725 were reduced by $36 to satisfy the formula/reconciliation check. The CFO reports valid Earnings and declares a Bad Debt Expense.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

A. UNMATCHED DISBURSEMENTS, NEGATIVE UNLIQUIDATED OBLIGATIONS, AND AGED IN-TRANSIT DISBURSEMENTS

	September 1996	September 1997	$ Change	Percent Change
Unmatched Disbursements	$9,894	$18,037	$8,143	82.30%
Negative Unliquidated Obligations	$1,111	$1,259	$148	13.32%
Aged In-Transit Disbursements	$0	$0	$0	0%
Totals	$11,005	$19,296	$8,291	75.34%

The increase in Unmatched Disbursements is due to the suspensing of disbursements charged to ASN 00104 Europe, pending the transfer of their accounting function to DFAS-Columbus, effective 1 October 1997.

B. Other Entity Assets:

The FY 97 DRMS disposable assets are comprised of the following and are represented at a Net Realizable Value of 2.5 %.

	1997	1996
(1) Usable	$180,377	$138,686
(2) Cash and Carry	16,521	17,817
(3) Scrap	2	141
TOTAL	$196,900	$156,644

C. Other Information:

DoD guidance requires that disposal property be reported at net realizable value. The cash and carry and scrap property above was valued at the market value as of September 30, 1997. The value for usable property was computed by multiplying the transfer value by the approved adjustment factor.

D. Accounts Payable:

Accounts Payable Non-Federal has been decreased by $44.7 million due to undistributed disbursements.

E. Entity Earnings:

Earnings and collections attributed to limitation 5N54 are developed, for the most part, from the DRMS daily DWCF report maintained at DRMS-Battle Creek.

F. Bad Debts:

As a historical record of bad debt has not yet been developed, bad debt expense was directly related to actual write-offs. It is expected that the Allowance For Bad Debts account will be utilized as intended in FY 98.

G. Undistributed Disbursements And Collections:

The Undistributed Disbursement and Undistributed Collection adjustments necessitated by the difference between reported Activity Disbursements and Collections as reported on the Trial Balance, and Treasury Disbursements and Collections as reported on the ACRS Cash Book, were developed as follows:

Undistributed Disbursements:

	GLAC 471.200	ACRS Cash Book	Difference
30 September 1992	183,584	181,431	2,153
30 September 1993	326,992	356,824	(29,832)
30 September 1994	368,505	375,654	(7,149)
30 September 1995	342,049	378,488	(36,439)
30 September 1996	393,691	378,920	14,771
30 September 1997	375,886	364,144	11,742
Cumulative Undistributed Disb.	1,990,707	2,035,461	(44,754)

Undistributed Collections:

	GLAC 472.100	ACRS Cash Book	Difference
30 September 1992	198,695	186,887	11,808
30 September 1993	348,928	348,266	662
30 September 1994	630,141	602,424	27,717
30 September 1995	623,518	602,240	21,278
30 September 1996	264,934	288,815	(23,881)
30 September 1997	262,456	270,838	(8,382)
Cumulative Undistributed Collect.	2,328,672	2,299,470	29,202

Footnotes

H. Reconciliation Checks And Reporting Relationships:

a)

CFO Statement Of Financial Position - Line 7.b	$333,044
AR(M) 1307 Statement Of Financial Position - Line 15.b	(33,730)
Difference	$(366,774)

Cash Transfers out of $366,774 are carried on Line 7.d of CFO Statement of Financial Position. They are not included in this reconciliation.

b)

CFO Statement Of Operations - Line 10a plus 10b	$376,255
AR(M) 1307, Statement Of Operations, Part 1, Statement Of Operations - Line 6	376,398
Difference	$(143)

Interest Expense is reported independently on Line 13 of CFO Statement of Operations, but is included in Operating Expenses on Line 6, Part 1 of (M) 1307.

c)

CFO Statement Of Operations - Line 21	$161,598
AR(M) 1307 Statement Of Operations, Part II, Changes In Net Position - Line 1.A.(1), 1.B.(3) and 1.D.(1)	166,948
Difference	$(5,350)

The transfers out of DLA Pacific, cash transfers, for FY 92 through FY 95 were reflected on the (M) 1307 during FY 97, but were removed from the CFO's in the previous year.

d)

CFO Statement Of Cash Flows - Line 29	85,983
AR(M) 1307 Statement Of Cash Flows,Line 21	90,105
Difference	(4,122)

1) $4,110 - (M) 1307 cash transfer includes DLA Pacific cash. The CFO did not include DLA Pacific cash in FY 96.

2) $12 - The CFO reflects a correction to the manual adjustment made to the FY 96 CFO Cash Flow Statement for the amount of cash transfers for DLA Pacific. Correction of this error cannot impact on a carry forward balance.

e)

CFO Statement Of Cash Flows - Line 31	(85,983)
AR(M) 1307 Statement Of Cash Flows, Line 23	(90,105)
Difference	(4,122)

See d), above.

Footnotes

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INFORMATION SERVICES

OVERVIEW

Overview

DEFENSE WORKING CAPITAL FUND
FY 97 OVERVIEW
INFORMATION SERVICES ACTIVITY GROUP
DEFENSE LOGISTICS AGENCY

The Information Services Activity Group was revised to include a Defense Logistics Agency (DLA) element at the beginning of FY 1996. On October 1, 1995, DLA began operation of its Information Services Activity Group with a single Central Design Activity (CDA), the DLA System Design Center (DSDC). The Activity Group combines DSDC and the Defense Automatic Addressing System Center (DAASC) with over 1,100 employees and an operating budget of $129.0 M.

The DLA Systems Design Center (DSDC) serves as a primary provider of integrated information management support, delivering responsive and innovative solutions to meet our DLA and DoD customer's needs. DSDC is the DLA central design activity (CDA) operating within the Information Services Activity Group of the Defense Working Capital Fund. DSDC headquarters are in Columbus, Ohio, with nine other geographically dispersed satellite sites. These sites, which include Ogden, Utah and Battlecreek, Michigan, among others, allow for co-location with some of our major customers. DSDC currently has three major program areas. They are:

- Software development and maintenance
- Technology and infrastructure support to DLA
- The Defense Automatic Addressing System Center and Laboratory Operations (DAASC).

Software development and maintenance represents the primary mission of DSDC. This includes the design and development of new applications in direct support of DLA's mission and the maintenance of existing production legacy and migration automated information systems (AIS). During FY 97, this segment of DSDC's mission accounted for approximately 70 percent, or $88.3 M, of total annual revenues of $127.1M. DSDC supports this mission program through a combination of organic and contractor resources.

Technology and infrastructure support and the DAASC constitute the remaining 30 percent or $38.1M of total annual revenue. Infrastructure is the term used to describe the technology environment under the direct control of DLA. This environment consists of the facilities, computing platforms, hardware systems, software systems, network configurations, shared services, data architectures, repositories and information technology processes required to support the DLA mission. DSDC provides technology support in areas such as operating system installation and support, capacity planning and management, Electronic Commerce/ Electronic

Data Interchange (EC/EDI), telecommunications support such as local area network (LAN) design and support, and the Defense Message System (DMS).

The DAASC, which was capitalized during FY94, is now a part of DSDC and serves as an essential utility, which provides two critical types of services to users. These are core supply and logistical transaction addressing and routing services and custom user-oriented management information services. The DAASC primary location is in Dayton, Ohio, with a satellite in Tracy, California. DoD users with a logistics or supply requirement process a transaction through their unique supply system which, in turn, transmits the requirement to the DAASC for editing, addressing and routing to the correct source of supply. DAASC operates 24 hours a day, 365 days a year processing an average of 4.5 million transactions daily. In addition, DAASC provides support to the Foreign Military Sales (FMS) Program with annual revenues of approximately $1.0M.

DSDC services are utilized by a wide variety of DLA and DoD customers. Our products and services benefit the DLA supply centers by providing the means by which requisitions are processed and item buys are recommended. The distribution depots process line items shipped and receipts processed using systems DSDC developed. The Defense Contract Management Command (DCMC) uses our systems to process contractual documents worth billions of dollars. In the end, the war fighter benefits because his logistical needs are met, due in large part to the systems developed and maintained by DSDC.

Table 1

A Day in the Life of Our System			
Requisitions	78,000	Contract Documents Received	2,100
Recommended Buys Generated	5,200	Contracts Closed	1,100
Billing Lines Generated	59,000	DD 250s Processed	2,500
Invoices Paid	11,700	Line Items Shipped	88,000
Dollars Disbursed	$490,000,000	Receipts Processed	23,000
Addressing Transactions	4,290,000	Contract and Modifications Awarded	11,000
Reutilization Receipts (Number)	13,248		
Reutilization receipts (Value)	$131,400,000		
Proceeds from Sales	$ 862,000		

The major sources of funding for DSDC are DLA Activity Groups and the Military Services. Approximately 76 percent of annual revenues are provided from these two sources. Additional revenue is earned from primarily DoD activities, such as DFAS.

Strategic Operating Initiatives and Program Performance Measures

DLA continues its focus to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DLA emphasizes quality improvement, commercial business practices and modern technologies to reduce the cost to the customer while maintaining the maximum level of readiness support for the Services.

In January 1994, DLA was selected as the initial DoD pilot project under the Government Performance and Results Act of 1993 (GPRA). Although DLA completed its requirements under this project, it continues to establish an annual performance plan including operating initiatives designed to focus on specific objectives presented in the DoD Logistics Strategic Plan and the DLA Corporate Plan.

DSDC reports a variety of metrics, which measure progress toward accomplishment of specific management goals. DSDC's management goals are to:

1) Improve productivity
2) Improve quality
3) Improve delivery
4) Improve customer satisfaction
5) Improve the financial health of the organization

A number of these goals are available through DSDC's Metrics Web Page. These metrics have been identified as directly related to our customer's program objectives and will assist DLA in meeting its Government Performance and Results Act (GPRA) objectives. The success of Information Services in meeting its mission is measured primarily through the satisfaction of its customers. The program performance measures include:

Timeliness Indicator: On-time deliverables - This measures the current developmental status of project completion, and compares the estimated project completion date to the current status (or the actual completion date) for deliverables. The delta provides information as to whether the development is within the stated tolerance of the estimate (either ahead of, exactly on, or behind schedule).

Quality: Capability Maturity Model (CMM Level) - This measures DSDC's progression up the (CMM) developed by the Software Engineering Institute (SEI). The CMM is a public model for appraising software development capability that is accepted by the international software community. It defines the characteristics of an organization as it matures in its ability to engineer software. It provides a framework for improving software processes and achieving quality results by describing the stages through which software organizations progress as they define, implement, evolve and improve their software processes. The CMM organizes the stages of software development capability into a model with five levels:

Overview

1. Level 1 – (Initial) – Processes are unfocused and ad hoc.
2. Level 2 – Has a project focus. Requirements and software configuration management, project planning and tracking software quality assurance can repeatedly be performed in-house and sub-contracted projects. Processes exist for each project, however it is not necessary that the processes are performed exactly the same on each project.
3. Level 3 – The level at which an organization moves from a project focus to a corporate engineering focus. Processes become standard and consistent across the organization.
4. Level 4 – Focus is on increasing quality through process metrics.
5. Level 5 – Focus is on defect prevention and technology innovation.

The CMM is intended for use in conjunction with an assessment methodology and management system. Assessment helps an organization identify its specific maturity status, and the management systems establishes a structure for implementing the priority improvement actions. Once its position in the CMM is defined, an organization can concentrate on those items that will help it advance to the next higher CMM level.

Quality: Hotlines – This measures the number of Direct Billable Labor Hours (DBLHs) required to respond to critical software deficiencies identified by customers using operationally released software against the total number of DBLHs.

Customer Satisfaction: Survey Response/Results - This measure provides trends in customer satisfaction. It reflects both the percentage of customers responding to the survey and the percentage of customers satisfied with the overall service provided by DSDC.

Analysis of Performance Measures

Table 2

	FY 96 Actual	FY 97 Actual	FY 97 Goal
On-time Deliverables	89% within 5% of estimate	89% within %5 of estimate **1/**	90% within 5% of estimate
CMM Level	74% fully satisfied at level 2 21% partially satisfied at level 2	100% fully satisfied at level 2	100% fully satisfied at level 2
Hotlines	£ 0.50%	£ 0.35%	£ 1.00%

1/ Coverage for FY 97 includes all of DSDC through the Third Quarter.

Table 3

FY 97 Software Development Delivery Schedule Success Rate				
	Presidential Goal	Within Schedule	Late Delivery	Total Completed
# of Contracts	–	201	23	224
% of total	*90.0%*	*90.0%*	*10%*	*100%*

Table 3 represents measures of the on-time delivery rate metric. This performance measure is defined as the percentage that projects are delivered to the customer and/or user as scheduled. This metric is utilized to measure the effectiveness of DSDC's ability to project and forecast efforts and associated costs. This metric, more than the others, has a direct bearing on customer satisfaction. There were a total of 224 completed projects for FY 97, of which 90% were completed on time meeting the Presidential Budget Goal.

Table 4

FY 97 Software Development Budget Delivery Schedule Success Rate				
	Presidential Goal	Within Schedule	Late Delivery	Total Completed
# of Contracts	–	214	23	224
% of total	*90.0%*	*96.0%*	*4%*	*100%*

Table 4, represents measures of the quality of our output products released to the field. This performance measure is defined as the number of actual system defect calls received per application system. The defects must be classified as application-based, not operations, design or documentation-based. This metric is utilized to measure the quality of DSDC software products that are implemented as operations systems. This metric is also utilized to identify areas of deficiencies within the development process. This measurement is very visible to the customer and is a direct indication of DSDC product quality. Continuing with those 224 completed projects, 96 percent were completed within budget for entire FY 97, which exceeded the Presidential Budget Goal of 90 percent.

Table 5

FY 97 Hotline Status					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Received	58	74	68	74	274
Completed	52	72	64	73	261
Canceled	6	2	4	1	13

Table 5 represents the total number of hotlines received during FY 97. All hotlines have been either completed or canceled.

Table 6

FY 97 Total Hotline Fixes					
	Operational Fix	Vendor/ Software	Program Fix	Canceled	Total
Received	127	11	124	12	274
% of total	*47.0%*	*4.0%*	*45.0%*	*4.0%*	*100.0%*

Table 6 depicts the total number of hotlines received (274), completed (261) and canceled (13) for the entire FY 97 by the type of hotline fix. Data is from September 29, 1996 through September 27, 1997.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

DLA began preparing financial statements in accordance with the Act in 1992 and believes the information reported continues to improve. Nevertheless, several challenges remain and are discussed in the following paragraphs. During FY 94, DLA established short- and long-term goals for creating a comprehensive financial management system, and undertook a number of initiatives to identify and assess the financial statement impact of current accounting practices. These goals and initiatives enabled DLA to establish milestones to improve financial data accuracy and reliability. DLA has worked diligently to reach these milestones during FY 95, FY 96 and FY 97, with significant progress achieved in the areas of accounts payable and receivable, property, plant and equipment and financial analysis. This process continues in FY 98.

The Federal accounting community continues to establish “Generally Accepted Accounting Principles” for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of “Generally Accepted Accounting Principles” will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

Traditional fund management, prior to DWCF, did not require the calculation of depreciation on property, plant and equipment (PP&E). Significant progress has been made toward correcting this situation. In conjunction with the implementation of the Defense Property Accounting System (DPAS), all DLA field activities undertook the review and revision of their property records. Additionally, DLA began validating the records of sites with significant balances and/or discrepancies. DPAS implementation was substantially completed through the end FY 97.

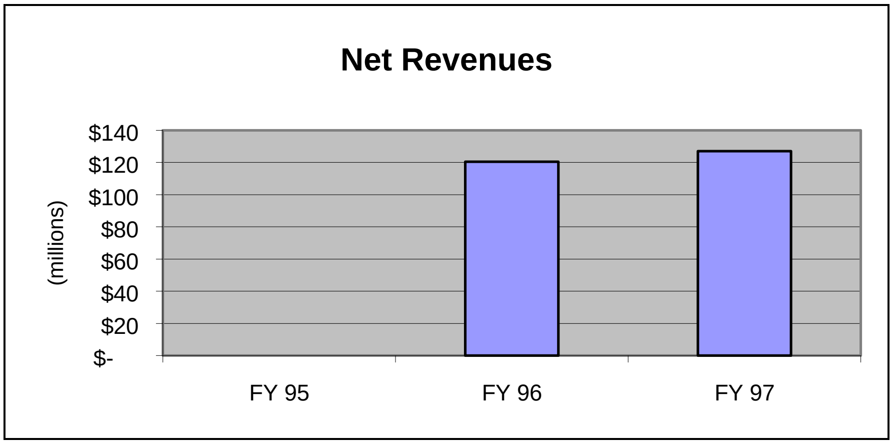
Accounts Receivable and Accounts Payable include “undistributed” amounts which represent the differences between collections and disbursements on the general ledger and those which have been reported through the finance network/ACRS cash report. The Department has recognized the “undistributed” problem and is currently pursuing corrective actions. The Defense Finance and Accounting Service (DFAS) site in Columbus, OH, which supports DLA, has also recognized this problem and has assigned accounting personnel for each DLA activity group the responsibility of reconciling the finance network and ACRS cash figures.

Accounts Receivable and Accounts Payable include over-aged and negative amounts that are currently under investigation for system and processing deficiencies. Significant progress has been made in resolving some of the over-aged amounts within Accounts Receivable and Accounts Payable as a result of continuing emphasis on Unmatched Disbursements and Negative Unliquidated Obligations.

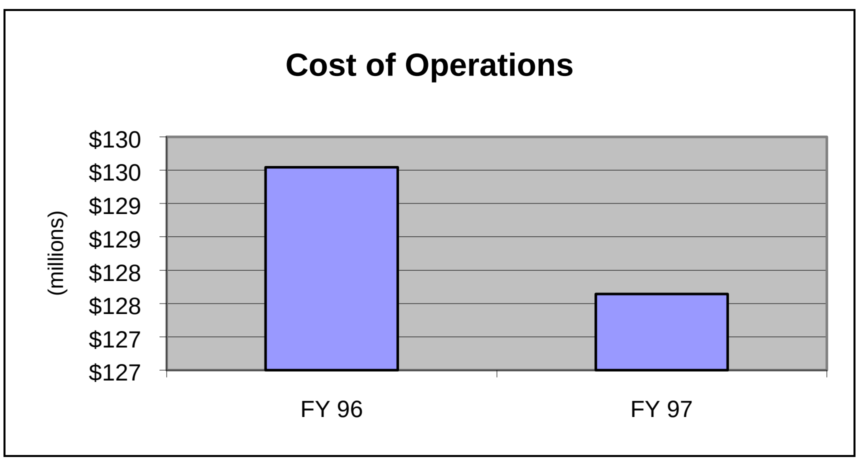
Overview

Financial Performance Measures

The following graphs and tables are presented to show financial performance trends of Net Revenues and Cost of Operations:



	FY 96	Change	FY 97
Net Revenues (Millions)	$ 120	+5.5%	$ 127



	FY 96	Change	FY 97
Cost of Operations (Millions)	$ 130	-1.5%	$ 128

Financial performance measures provide additional information on the efficiency and effectiveness area operations. The Information Services performance measures are identified below.

- Unit cost rate (UCR) – A business-type cost accounting procedure and system that captures all costs required to produce an output. The process is to identify the output, the cost of producing the output, and the workload performed for an output (unit cost = cost/workload). The costs are identified as direct/ indirect and general and administrative (overhead).

Analysis of Financial Performance Measures

Results for FY 96 and FY 97 and the FY 97 goals were:

	FY 96 Actual	FY97 Actual	FY97 Goal
Unit Cost Rate	$ 52.76	$ 59.70	$ 55.37

The unit cost rate goal was set higher in FY 97 than FY 96 actual in recognition of increased lab testing and software maintenance contractual and licensing costs. The expected increase in productivity resulting from these investments are expected to outweigh their costs. The FY 97 unit cost goal was not achieved because anticipated workload did not materialize, causing estimated production hours to be overstated. Capital investments have been made in Computer Aided Software Engineering (CASE) tools and in project management tools. Investments in the software process improvement arena have also increased operating costs, however, the expected return on investment (ROI) will outweigh the initial investment.

Overview

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INFORMATION SERVICES

PRINCIPAL STATEMENTS

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($13,743)	($2,193)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	27,985	22,592
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	17
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	14	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	9,264	8,999
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	$23,520	$29,415
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	**1997**	**1996**
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$23,520	$29,415
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$8,346	$13,670
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	8,538	8,426
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	546	289
(b) Annual Accrued Leave	6,020	6,295
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	$23,450	$28,680

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$23,450	$28,680
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	9,723	9,840
c. Cumulative Results of Operations	(9,653)	(9,105)
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	$70	$735
8. Total Liabilities and Net Position	$23,520	$29,415

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	212	3
b. Intragovernmental	126,883	120,438
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$127,095	$120,441
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	(169)	0
b. Intragovernmental	126,131	126,368
11. Depreciation and Amortization	1,681	3,178
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	$127,643	$129,546
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	($548)	($9,105)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($548)	($9,105)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$735	$0
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	$735	$0
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(548)	(9,105)
23. Plus (Minus) Non Operating Changes (Note 28)	(117)	9,840
24. Net Position, Ending Balance	$70	$735

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	($548)	($9,105)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(5,393)	(22,592)
4. Decrease (Increase) in Other Assets	2	(17)
5. Increase (Decrease) in Accounts Payable	(5,350)	21,560
6. Increase (Decrease) in Other Liabilities	271	6,583
7. Depreciation and Amortization	1,681	3,178
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	0
10. Total Adjustments	($8,789)	$8,712
11. Net Cash Provided (Used) by Operating Activities	($9,337)	($393)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	(4,406)	(1,800)
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	($4,406)	($1,800)
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(2,193)	0
23. Net Appropriations	$2,193	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Information Services
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	$2,193	$0
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($11,550)	($2,193)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(2,193)	0
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($13,743)	($2,193)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$0	$0

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INFORMATION SERVICES

FOOTNOTES

Footnotes

NOTES TO THE DEPARTMENT OF DEFENSE DEFENSE LOGISTICS AGENCY, INFORMATION SERVICES PRINCIPAL STATEMENTS AS OF SEPTEMBER 30, 1997

Note 1. Summary of 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) Information Services Activity Group , as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of DLA Systems Design Center (DSDC) in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, DSDC accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the DSDC financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

The Information Services Activity Group was revised to include a Defense Logistics Agency (DLA) element at the beginning of FY 96. On October 1, 1995, DLA began operation of its Information Services Activity Group with a single Central Design Activity (CDA), the DLA System Design Center (DSDC). The Activity Group combines DSDC and the Defense Automatic Addressing System Center (DAASC) with over 1,100 employees and an operating budget of $129 million.

The DLA Systems Design Center (DSDC) serves as a primary provider of integrated information management support, delivering responsive and innovative solutions to meet our DLA and DoD customer’s needs. DSDC is the DLA central design activity (CDA) operating within the Information Services Activity Group of the Defense Working Capital Fund. DSDC headquarters are in Columbus, Ohio, with nine other geographically dispersed satellite sites. These sites, which include Ogden, Utah and Battlecreek, Michigan, among others, allow for co-location with some of our major customers. DSDC currently has three major program areas.

This mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5F50.

The CFO Act requires Information Services, as a business entity under DWCF, to provide audited financial statements. FY 97 represents the second year that Information Services prepared financial statements as required by the CFO Act.

C. Budgets and Budgetary Accounting:

DSDC receives an annual operating budget that provides total cost authority in unit cost terms. Unit Cost Resourcing provides the operating expense authority for items such as salaries, non-labor expenses, and materiel. Cost authority or the amount "earned" depends on the actual work load times the unit cost.

DSDC can also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources:

Revenues and financing sources for DSDC consist of reimbursements from customers for services provided. Revenues are recognized when the service has been performed.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, through FY 96 these financial statements did not include certain overhead costs of the Agency. Beginning with FY 97, these costs, approximately $1 million, were allocated to Information Services, which reimbursed Supply Management for this amount. Additionally, DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

Finally, DSDC's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DSDC does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM) for CSRS and FERS.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the activity groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by the Office of the Secretary of Defense (OSD), DSDC obtains the cash receipt and disbursement information from the finance network/Cash Outlay System Report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/Cash Outlay System Report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

DSDC does not transact business in foreign currencies.

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources. An allowance for uncollectible accounts has not been established as DSDC has not experienced significant uncollectible amounts. The accounting systems classify receivables as from government sources and from public sources.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/Cash Outlay System Report. As a result of the transfer of accounting and management responsibilities, DLA has limited capability to reconcile these differences. See Note 31 for detail on the amounts of these transactions at year-end.

Accounts receivable may also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies.

J. Loans Receivable:

DSDC does not lend money.

K. Inventories:

DSDC does not maintain inventory.

L. Investments in U.S. Government Securities:

DSDC does not invest in U.S. Government securities.

M. Property, Plant and Equipment:

This Activity Group capitalizes equipment according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, greater than or equal to $50,000 for FY 95, and greater than or equal to $100,000 for FY 96 and FY 97.

- Estimated useful life is two years or more.

Capital assets in DSDC are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. Depreciation is recorded on a straight-line basis. The capital assets for DSDC include such items as ADP equipment.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods and services are received.

O. Leases:

DSDC is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

DSDC may also be party (as lessee) to a limited number of leases that meet the capital lease criteria. However, the accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized, but expensed as incurred.

P. Contingencies:

This Activity Group is obligated for goods and services that have been ordered but not yet received and paid.

DSDC may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect DSDC operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year, the balance in the accrued annual leave account is adjusted to reflect changes to those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of capitalized assets, cumulative results of operations, future funding requirements and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to DSDC.

T. Treaties for Use of Foreign Bases:

DSDC has not entered into treaties for the use of foreign bases.

U. Comparative Data:

The financial statements present FY 96 and FY 97 amounts.

V. Restatement of Prior Year Principal Statements:

Not applicable.

W. Unpaid Obligations and Undelivered Orders:

This Activity Group is obligated for goods and services that have been ordered but not yet received. Total undelivered orders amounted to $5,554,798 (in whole dollars) as of September 30, 1997.

Note 2. Fund Balances with Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

Not applicable.

B. Working Capital Fund Activities Below USD(C) Level:

Entity Assets:	1997	1996
Beginning Balance	$ (2,193)	$ 0
Transfers of Cash to Others (reverse sign)	2,193	0
Transfers of Cash from Others (reverse sign)	0	0
Funds Collected	121,701	97,848
Funds Disbursed	(135,444)	(100,041)
Ending Balance	$ (13,743)	$ (2,193)

C. Working Capital Fund Activities and All Other Funds and Accounts:

Not applicable.

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/Cash Outlay System Report and Service listings. The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger amounted to $3,308,362 (in whole dollars). This amount is reported as a decrease in accounts receivable. The difference between cash disbursements in the finance network/Cash Outlay System Report and the general ledger amounted to $14,740,430 (in whole dollars). This amount is reported as a decrease in accounts payable.

Note 3. Cash, Foreign Currency and Other Monetary Assets

Not applicable.

Note 4. Investments

Not applicable.

Footnotes

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$27,985	0	n/a	$27,985
Governmental	0	0	n/a	0
B. Non-Entity Receivables:				
Intragovernmental	0	0	n/a	0
Governmental	0	0	n/a	0

C. Other Information:

The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger amounted to $3,308,362 (in whole dollars). This amount is recorded as a decrease in accounts receivable (Intragovernmental).

Accounts receivable may also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for detail on the amounts of these transactions at year-end.

Note 6. Other Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Note 8. Inventory, Net

Not applicable.

Note 9. Work in Process

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

Not applicable.

Note 11. Stockpile Materials, Net

Not applicable.

Note 12. Seized Property

Not applicable.

Note 13. Forfeited Property, Net

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization

Not applicable.

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land:	-	-	$0	$0	$0
B. Structures, Facilities, & Leasehold Improvs:	-	-	0	0	0
C. Military Equipment:	-	-	0	0	0
D. ADP:	-	-	0	0	0
E. Equipment-NonMilitary:	-	-	37,840	28,867	8,973
F. Assets under Capital Lease:	-	-	0	0	0
G. Other:	-	-	0	0	0
H. Natural Resources:	-	-	0	0	0
I. Construction in Progress:	-	-	291	0	291
TOTAL			$ 38,131	$ 28,867	$ 9,264

* Key:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digit	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other (describe)	

J. Other Information

Capital assets in DSDC were accounted for in the Appropriation Accounting Subsystem of Defense Business Management System (DBMS) for FY 96. In FY 97, these assets were moved to the Defense Property Accountability System (DPAS), which generates the asset value and depreciation data transferred to DBMS for financial reporting. During FY 97, in an effort to clean up the records of DPAS, many assets were excessed off the books and corrections were made on existing records. The corrections were primarily done on the Dayton assets and resulted in decreases to the acquisition costs and related accumulated depreciation. Additionally, although Information Services' capital assets largely consist of ADP hardware and software, current data limitations do not allow for this detailed classification. These limitations are to be addressed in FY 98.

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment. As a result, property, plant and equipment was not always reflected on the accounting records.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Note 16. Debt

Not applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

1. Intragovernmental

   Not applicable.

2. Governmental

Not applicable.

B. Other Information:

Not applicable.

C. Other Liabilities Not Covered by Budgetary Resources:

Not applicable.

D. Other Information

Not applicable.

Note 18. Leases

A . Entity as Lessee:

DSDC is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities.

DSDC generally leases facilities and equipment from year to year under Interagency Service Agreements. Although these agreements may extend for longer than a year, the majority can be renegotiated, and thus, are not considered noncancellable. Rental expense associated with these agreements is expensed when paid.

B. Entity as Lessor:

Not applicable.

C. Other Information:

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

DSDC's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DSDC does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	9,723	0	0	9,723
C. Cumulative Results of Operations:	(9,653)	0	0	(9,653)
D. Other:	0	0	0	0
E. Future Funding Requirements:	0	0	0	0
F. Total:	$ 70	0	0	$ 70

G. Other Information:

Not applicable.

Note 21. Taxes

Not applicable.

Note 22. Other Revenue and Financing Sources

Not applicable.

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:

Not applicable.

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

Not applicable.

Note 24. Cost of Goods Sold (in thousands)

	1997	1996
A. Cost of Services Sold:		
(1) Beginning Work-in-Process	$ 0	$ 0
(2) Plus: Operating Expenses	125,962	126,368
(3) Minus: Ending Work-in-Process	0	0
(4) Minus: Completed work for Activity Retention	0	0
Cost of Services Sold	$ 125,962	$ 126,368

B. Other Information:

Operating Expenses by Object Classification:	1997	1996
(1) Personal Services and Benefits	$ 81,296	$ 82,375
(2) Travel and Transportation	2,763	3,119
(3) Rental, Communications and Utilities	1,216	1,598
(4) Printing and Reproduction	31	34
(5) Contractual Services	37,075	35,537
(6) Supplies and Materials	1,365	1,758
(7) Equipment not Capitalized	2,214	1,938
(8) Grants, Subsidies and Contributions	0	0
(9) Insurance Claims and Indemnities	0	0
(10) Other	2	9
Total Expenses by Object Class	$ 125,962	$ 126,368

A portion of the Cost of Goods or Services Sold, Public (Statement of Operations, Line 10.a.) is the change in Accrued Annual Leave Liability between FY 96 and FY 97 (expense being a normal increase). This amount decreased by $274,473 (in dollars) causing the Cost of Goods or Services Sold, Public to be reflected as a negative amount.

Note 25. Other Expenses

A. Other Expenses:

Not applicable.

B. Other Information:

Not applicable.

Note 26. Extraordinary Items

Not applicable.

Note 27. Prior Period Adjustments

A. Prior Period Adjustments:

Not applicable.

B. Other Information

Not applicable.

Note 28. Non-Operating Changes (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Cash	$ 2,193	$ 9,840
(2) Donations received	0	0
(3) Other Increases	0	0
(4) Total Increases	$ 2,193	$ 9,840
B. Decreases:		
(1) Transfers-Out		
(a) Cash	$ 0	$ 0
(2) Donations	0	0
(3) Other Decreases	(2,310)	0
(4) Total Decreases	$ (2,310)	$ 0
C. Net Non-Operating Changes (Transfers):	$ (117)	$ 9,840

D. Other Information:

Other Decreases of ($2,309,559) (in whole dollars) are a result of a decrease in Capital Assets from FY 96 (in the amount of $9,840,722) to FY 97 (in the amount of $7,531,163).

Note 29. Intrafund Eliminations

Schedule A:

Not applicable.

Schedule B: (DLA, Working Capital Fund to DLA, Working Capital)

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Receivable†	Revenue	Unearned Revenue	Collections †
DLA, Information Services	$ 23,347	$ 94,429	$ 0	$ 90,665
	$ 23,347	$ 94,429	$ 0	$ 90,665

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Payable †	Expenses	Advances	Disbursements†
Intra DLA Support	$ 0	$ 0	$ 0	$ 0
DLA Between DLA	5,704	23,071	0	22,152
DLA Pr Mtls (DPDS)	6	24	0	23
Intra-DLA (Defense Stock Fund or Industrial Fund)	17,637	71,334	0	68,490
	$ 23,347	$ 94,429	$ 0	$ 90,665

† See Other Information below.

Schedule C: (Department of Defense to Department of Defense)

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Receivable†	Revenue	Unearned Revenue	Collections †
DLA, Information Services	$ 7,909	$ 32,449	$ 0	$ 31,133
	$ 7,909	$ 32,449	$ 0	$ 31,133

Footnotes

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Payable †	Expenses	Advances	Disbursements †
Navy, Marine Corps	$ 966	$ 3,907	$ 0	$ 3,752
Army	820	3,316	0	3,184
Air Force	931	3,767	0	3,617
FMS, Material & Svcs (FCAS)	96	848	0	792
Other Defense Agencies	5,096	20,611	0	19,788
	$ 7,909	$ 32,449	$ 0	$ 31,133

† See Other Information below.

Schedule D: (Department of Defense to Other Government Agencies)

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Receivable†	Revenue	Unearned Revenue	Collections †
DLA, Information Services	$ (3,271)	$ 5	$ 0	$ (309)
	$ (3,271)	$ 5	$ 0	$ (309)

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Payable †	Expenses	Advances	Disbursements†
US Postal Service	$ 4	$ 4	$ 0	$ 4
GSA	1	1	0	0
Other	(3,276)	0	0	(313)
	$ (3,271)	$ 5	$ 0	$ (309)

† See Other Information below.

Other Information †:

For Schedules B, C, and D, earnings were shown at a detail source code level in the General Ledger Trial Balance, thus allowing Expenses to be shown at the lowest Customer Activity Level above. However, Accounts Receivable and Collections are not reflected in the General Ledger

Trial Balance using the same detail source code level; therefore, detail level Accounts Payable and Disbursements were computed using a percentage of Earnings in order to be shown at the same Customer Activity level.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

A. Other Entity and Non-entity Assets

Not applicable.

B. Calculation of Undistributed Cash (in dollars):

Undistributed DISBURSEMENTS (In Dollars)	DBMS General Ledger	Cash Outlay System ††	Difference
30-Sep-97	127,729,653	135,444,180	(7,714,527)
30-Sep-96	93,018,534	100,041,126	(7,022,592)
Cumulative Undistributed Disbursements			(14,737,119)

†† Under the guidance and authority of the Defense Finance and Accounting Service, Headquarters (DFAS-HQ), a $10,000,000 (in whole dollars) Net Cash Outlay was transferred to the Information Services Activity Group from the Corporate Account in FY 97.

Undistributed COLLECTIONS (In Dollars)	DBMS General Ledger	Cash Outlay System	Difference
30-Sep-97	121,981,873	121,701,405	280,468
30-Sep-96	94,259,670	97,848,500	(3,588,830)
Cumulative Undistributed Collections			(3,308,362)

Footnotes

C. Accounts Receivable adjusted for Undistributed Collections (in thousands):

Accounts Receivable Adjusted for Undistributed Collections	$ 27,985
less: Accounts Receivable per Agency Records	(31,293)
Undistributed Collections	$ (3,308)

D. Accounts Payable adjusted for Undistributed Disbursements (in thousands):

Accounts Payable Adjusted for Undistributed Disbursements	$ 16,884
less: Accounts Payable per Agency Records	(31,621)
Undistributed Disbursements	$ (14,737)

E. Unmatched Disbursements, Negative Unliquidated Obligations, and Totals

Defense Agencies (TI 97) Defense Logistics Agency Appropriations	September 1996 (thousands)	September 1997 (thousands)	Change (thousands)	% Change
Unmatched Disbursements	Not Reported	$ 1,742	$ 1,742	100%
Negative Unliquidated Obligations	Not Reported	0	0	0%
Aged Intransit Disbursements	Not Reported	0	0	0%
Totals:		$ 1,742	$ 1,742	100%

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

AUTOMATED PRINTING SERVICE

OVERVIEW

DEFENSE LOGISTICS AGENCY
DEFENSE WORKING CAPITAL FUND
AUTOMATED PRINTING SERVICE ACTIVITY GROUP
FY 97 OVERVIEW

The Automated Printing Service Activity Group's primary mission is printing, duplicating, and document automation for the Department of Defense (DoD). In FY 97, the Deputy Secretary of Defense changed the name of "Defense Printing Service" to "Defense Automated Printing Service" (DAPS). This change reflects the DAPS role in the DoD transition from hardcopy to electronic-based document management. DAPS has direct responsibility for the DoD automated printing program encompassing electronic conversion, retrieval, output, and distribution of digital and hard copy information. DAPS provides quality products and services that are competitively priced and delivered on time to their customers. DAPS is one of the first government organizations to conduct intra-government business using Visa's International Merchant Purchase Authorization Card (IMPAC). The use of the IMPAC card has resulted in significant cost savings, reduction in time required to process transactions, and in addition, it is "user friendly."

DAPS is comprised of a Corporate Support Team located at Fort Belvoir, Virginia, 78 major field locations and 163 smaller document automation facilities. Approximately 1,900 civilian personnel support the DAPS mission.

DAPS operates within the Defense Working Capital Fund (DWCF). Under DWCF, operations are funded on a fee for service basis. As a result, DAPS operates in a business-like manner, accounting for all revenues and costs. Investment strategies have been developed as necessary to acquire the capabilities to provide the services needed by our customers.

<u>Strategic Operating Initiatives and Program Performance Measures</u>

Through FY 97 DAPS continued to operate in a manner similar to commercial firms in the marketplace, with an emphasis on increased customer satisfaction. DAPS emphasized quality improvement, commercial business practices and modern technologies to reduce the cost to the customer.

1) Responsibility to our Customers

DAPS evaluated its effectiveness and values by adhering to the following principles: commitment to quality products, commitment to on-time delivery at a competitive price, commitment to responsive customer service, and commitment to continually improve all facets of its business.

Overview

Customer Satisfaction Index - A survey was administered to 412 customers randomly selected from a population of 2,533. To ensure that the survey results accurately reflected our customers' opinions, DAPS customers were divided into groups based on the branch of DoD Service, the DAPS geographic area, the length of time the customer had interacted with DAPS, and the volume of business revenue provided by the customer.

The approach to this survey involved obtaining the services of a professional research firm, selecting and educating a DAPS Customer Service Improvement Team, defining the DAPS customer population, and conducting customer focus groups to identify and define the important service quality attributes. The rating scale and results were as follows:

Rating Scale	Results
1-3, Very Dissatisfied	1.2%
5-6, Dissatisfied	5.6%
6-8, Acceptable, but room for improvement	37.2%
9-10, High Quality	56.0%

2) Transition from paper to electronic-based documents

DAPS is dedicated to the transition from paper to electronic-based document management, and is an integral part of the DoD plan to evolve into the age of electronic documentation. DAPS is leading the effort to substantially reduce paper-based bulk printing and warehousing. This will be accomplished by converting paper documents to digital form, and providing the infrastructure for quick, economical, and secure digital distribution and output at the point of need.

The documentation role also includes developing a broad knowledge base of technology that can benefit the DoD. This is carried out through an Automation Learning Center (ALC), dedicated to examining the best solutions to meet the DoD document production need, and a workforce that has all the information necessary to meet those technological challenges.

3) Use of International Merchant Purchase Authorization Cards (IMPAC)

DAPS is the first DoD organization to conduct intra-government business using Visa's IMPACs. Use of the card has cut labor and processing costs by as much as half and provided timely billing to customers.

4) Responsibility to our Employees

DAPS adheres to the following guiding principles: Communicate openly and honestly, treat everyone fairly and objectively with courtesy and respect, understand and value diversity in ideas and individuals, commit to change through self-development and learning, promote and reward teamwork, encourage innovation and reward achievement, train and empower our team to do the best job, accept personal accountability and responsibility, commit to personal and organizational excellence, and be the solution, not the problem.

Training - Moving into a highly competitive, automated environment requires a different skill mix within the organization. DAPS offers access to training programs specifically applicable to individual needs. Training efforts will continue through formal classes, self-development and mentoring.

Enabling Methodologies

DAPS used three measurable outputs and five unmeasurable outputs to track costs. The measurable outputs were offset press units, electronic impressions and running feet of reproduction. DAPS tracked unmeasurable outputs (micrographics, automated publishing, other production, copier program, and contract printing) in total dollars. Beginning in FY 99, DAPS will use one measurable output for in-house production and two unmeasurable outputs for its commercial programs (copier program and contract printing) to track costs. There will be no impact on customers as DAPS will continue to use subsidiary rates to bill customers for products and services rendered.

Financial Management and the Chief Financial Officers Act of 1990

In 1990, Congress passed the Chief Financial Officers Act (the Act) which mandated the preparation of financial statements in accordance with Generally Accepted Accounting Principles. The Act, along with the creation of the Defense Working Capital Fund (DWCF), formerly known as the Defense Business Operations Fund (DBOF), represented a fundamental shift in traditional fund management (i.e., obligations and outlays) to a more commercial, business-oriented approach.

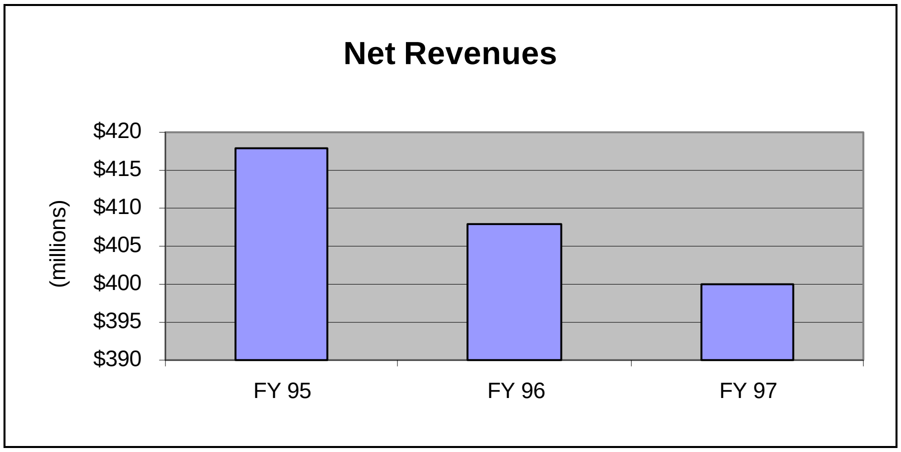
The Federal accounting community continues to establish “Generally Accepted Accounting Principles” for federal agencies, with additional guidance issued to reporting units by their respective Comptroller divisions. The continuing development of “Generally Accepted Accounting Principles” will greatly enhance the accuracy and usefulness of reported financial information. However, reported financial information may be inconsistent in the short-term.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. Currently, the Office of the Secretary of Defense (OSD) has not issued detailed accounting guidance regarding this reporting requirement and current accounting systems used to record the financial information have not been designed to identify and retain this information. Therefore, in order to comply with this requirement, estimated calculations are provided.

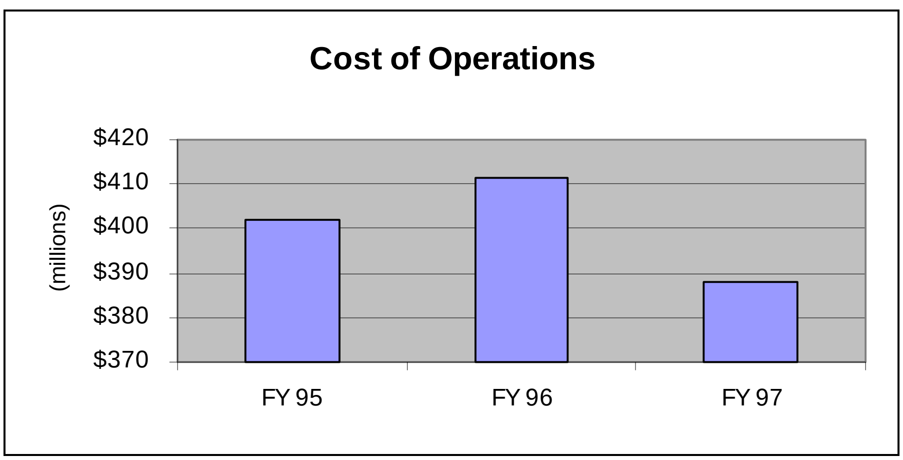
Overview

Financial Performance Measures

The following two graphs and tables are presented to show financial performance trends of Net Revenues and Cost of Operations:



	FY 95	Change	FY 96	Change	FY 97
Net Revenues (Millions)	$ 418	–2.4%	$ 408	–1.9%	$ 400



	FY 95	Change	FY 96	Change	FY 97
Cost of Operations (Millions)	$ 402	+2.3%	$ 411	–5.7%	$ 388

Financial performance measures provide additional information on the efficiency and effectiveness of activity group operations. The DAPS financial performance measures are identified below.

- Cost per Press Unit – A business-type cost accounting procedure and system that captures all costs required to produce an output. The process is to identify the output, the cost of producing the output, and the workload performed for an output (unit cost = cost/workload). The costs are identified as direct/ indirect and general and administrative (overhead). The output of DPAS is number of press units.

- Cost per Electronic Impression – A business-type cost accounting procedure and system that captures all costs required to produce an output. The process is to identify the output, the cost of producing the output, and the workload performed for an output (unit cost = cost/workload). The costs are identified as direct/ indirect and general and administrative (overhead). The output of DPAS is number of electronic impressions.

Results for FY 96 and FY 97 and the FY 97 goals were:

	FY 96 Actual	FY 97 Actual	FY 97 Goal
Cost per Press Unit	$ 0.03881	$ 0.04400	$ 0.04000
Cost per Electronic Impression	$ 0.02877	$ 0.02991	$ 0.02920

FY 97 Actual is as of 04/30/97. As a result of the implementation of a new financial information system, data for the calculation was not available at September 30, 1997.

Overview

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

AUTOMATED PRINTING SERVICE

PRINCIPAL STATEMENTS

Principal Statements

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($17,624)	$0
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	100,386	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	(8,167)	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	90	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	18,850	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	33,313	0
l. War Reserves		0
m. Other Entity Assets	33	0
n. Total Entity Assets	$126,881	$0
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$126,881	$0
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$105,168	$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	(72,051)	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	37,432	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	6,145	0
(b) Annual Accrued Leave	5,009	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	8,742	0
c. Total Liabilities Covered by Budgetary Resources:	$90,445	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$90,445	$0
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	49,549	0
c. Cumulative Results of Operations	(13,113)	0
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	$36,436	$0
8. Total Liabilities and Net Position	$126,881	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	2,460	0
b. Intragovernmental	397,452	0
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$399,912	$0
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	2,460	0
b. Intragovernmental	379,297	0
11. Depreciation and Amortization	6,277	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	$388,034	$0
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$11,878	$0
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$11,878	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$0	$0
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	$0	$0
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	11,878	0
23. Plus (Minus) Non Operating Changes (Note 28)	24,558	0
24. Net Position, Ending Balance	$36,436	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$11,878	$0
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(92,219)	0
4. Decrease (Increase) in Other Assets	(18,973)	0
5. Increase (Decrease) in Accounts Payable	142,600	0
6. Increase (Decrease) in Other Liabilities	(52,155)	0
7. Depreciation and Amortization	6,277	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(15,032)	0
10. Total Adjustments	($29,502)	$0
11. Net Cash Provided (Used) by Operating Activities	($17,624)	$0
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	$0	$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	0	0
23. Net Appropriations	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Defense Printing Service
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	$0	$0
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($17,624)	$0
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	0	0
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($17,624)	$0

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	$0	$0

The accompanying notes are an integral part of these statements.

Principal Statements

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

AUTOMATED PRINTING SERVICE

FOOTNOTES

Footnotes

DEFENSE WORKING CAPITAL FUND
AUTOMATED PRINTING SERVICE
NOTES TO THE PRINCIPAL STATEMENTS
AS OF 30 SEPTEMBER 1997

Note 1. Significant Accounting Policies

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operation of the Defense Logistics Agency (DLA) Defense Automated Printing Service (DAPS) Activity Group, as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of DAPS in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01, and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, DAPS accounts for transactions in accordance with the guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the DAPS financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

DAPS has direct responsibility for the DoD printing program and document automation encompassing value-added conversion, electronic storage and output, and the distribution of hard copy and digital information. DAPS manages a worldwide printing, duplicating, document automation, production, and procurement network.

On October 1, 1996, Defense Printing Service (DPS) was renamed Defense Automated Printing Service (DAPS) as it converted from the Navy Defense Business Operations Funds to the DLA Defense Working Capital Fund. Also in May 1997, Defense Finance and Accounting Service (DFAS) began the implementation of the Defense Working Capital Accounting System (DWAS). DWAS is the first commercial off the shelf DoD migratory accounting system.

The CFO Act requires DAPS, as a business entity under DWCF, to provide audited financial statements. Due to the difficulties DFAS encountered while implementing the new system, accounting reports were not available to DAPS at the end of the fiscal year, thus an audit to confirm the validity of the data reported could not be not performed.

C. Budgets and Budgetary Accounting:

DAPS receives an annual operating budget that provides total cost authority in unit cost terms and reimbursable/other outputs. DAPS used three measurable outputs and five unmeasurable outputs to track costs. Unit Cost Resourcing provides the operating expense authority for items such as salaries, non-labor expenses, and materiel. Cost authority or the amount "earned" depends on the actual work load times the unit cost.

DAPS can also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned rather than when collected, and expenses are recognized when incurred rather than when paid. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal Funds.

"DoD Guidance on Form and Content of Financial Statements for FY 97 Financial Activity" requires that intrafund transactions be identified and eliminated. However, the Office of the Secretary of Defense (OSD) has not issued official accounting guidance regarding this reporting requirement and current accounting systems used to record earnings, expenses, collections and disbursements have not been designed to identify and retain this information at the appropriate detail level. Therefore, in order to comply with this requirement, estimated calculations are provided. Note 29 identifies the eliminations in general terms, however, due to our inability to capture the necessary financial data, certain schedules will be completed in full while others will be incomplete.

E. Revenues and Other Financing Sources:

Revenues and financing sources for DAPS consist of reimbursements from customers for services provided. Revenues are recognized when the services have been performed.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and depends upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

For example, FY 97 financial statements do not include all overhead costs to the Agency. These costs are not reported in the DAPS area. Beginning in FY 98, DLA will allocate DAPS's proportionate share of overhead, and this amount will be presented in DAPS's financial statements. Additionally, DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies.

Finally, DAPS' civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). DAPS does not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pension liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

H. Foreign Currency:

Gains and losses from foreign currency transactions are not recognized in the Statement of Operations. Revenue and expenses are recorded at the rate of exchange.

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources. An allowance for uncollectible accounts has not been established as DAPS has not experienced significant uncollectible amounts.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/Cash Outlay System Report. As a result of the transfer of accounting and management responsibilities, DLA has limited capability to reconcile these differences.

J. Loans Receivable:

Not applicable.

K. Inventories:

Inventories are operating supplies and non-consumable items. Direct Materiel inventory is valued at the weighted average method.

L. Investments in U.S. Government Securities:

Not applicable.

M. Property and Equipment:

Equipment is valued at acquisition costs using Federal stock categories where applicable. While no gains or losses are recognized in the Statement of Operations for changes in average costs of equipment, such changes are reflected in asset valuations and related invested capital. Engineering and modification costs incurred subsequent to approval of the basic procurement contracts are valued at the contract price of the engineering change order, value engineering, and any other cost of materiel or services not included in the contract costs. Depreciation is on straight line basis per guidance. Improvements to buildings costing more than $100,000 are capitalized and depreciated over their remaining useful life.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods and services are received.

O. Leases:

In FY 97, DAPS was committed to numerous operating leases and rental agreements. Generally, these leases were for the rental of equipment, space, and operating facilities. Payments under these operating leases were expensed as incurred.

P. Contingencies:

DAPS may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect DAPS operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

Civilian annual leave is accrued as earned, and accrued hours are reduced as leave is taken. Unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The balance for accrued leave reflects current pay rates, and each year, the balance in the accrued annual leave account is adjusted to reflect changes to those rates. Sick leave and other types of nonvested leave are expensed as taken.

R. Equity:

Equity consists of cumulative results of operations, and other equity balances.

S. Aircraft/Ship Crashes:

Not applicable.

T. Treaties for Use of Foreign Bases:

Not applicable.

U. Comparative Data:

Comparative data from FY 96 financial statements is not provided, as FY 97 is the first year of DAPS operations within DLA. FY 97 data will be included for comparison purposes in the FY 98 financial statements.

V. Restatement of Prior Year Principal Statements:

Not applicable.

W. Undelivered Orders:

DAPS is obligated for goods and services ordered but not yet received. Total undelivered orders as of September 30, 1997 amounted to $35.9 million.

Footnotes

Note 2. Fund Balances with Treasury (in thousands)

A. Fund and Account Balances:

Not applicable.

B. Working Capital Fund Activities Below USD(C) Level:

Entity Assets:

	1997	1996
Beginning Balance	$0	$0
Transfers of Cash to Others	0	0
Transfers of Cash from Others	0	0
Funds Collected	377,289	0
Funds Disbursed	(394,913)	0
Ending Balance	$(17,624)	$0

C. Working Capital Fund Activities and All Other Funds and Accounts:

Not applicable.

D. Other information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/Cash Outlay System Report and Service listings. The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger is reported as a decrease in accounts receivable. The difference between cash disbursements in the finance network/Cash Outlay System Report and the general ledger is reported as a decrease in accounts payable.

Note 3. Cash, Foreign Currency and Other Monetary Assets (in thousands)

Not applicable.

Note 4. Investments, Net (in thousands)

Not applicable.

Note 5. Accounts Receivable, Net (in thousands)

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$100,386	$0		$100,386
Governmental	(8,167)	0		(8,167)
B. Non-Entity Receivables:				
Intragovernmental	0	0		0
Governmental	0	0		0
Total A/R	$92,219	$0		$92,219

C. Other Information:

The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger is recorded as an increase to accounts receivable (Intragovernmental).

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets (in thousands)

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers (in thousands)

Not applicable.

Note 8. Inventory, Net (in thousands)

Not applicable.

Note 9. Work in Process (in thousands)

Not applicable.

Footnotes

Note 10. Operating Materials and Supplies (OM&S), Net (in thousands)

	(1) OM&S Amount	(2) Allowance For Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
1. Held for Use	$18,850	$0	$18,850	
2. Held in Reserve for Future Use				
3. Excess, Obsolete and Unserviceable				
Total	$18,850	$0	$18,850	

B. Restrictions on operating materials and supplies: None

C. Other Information: DAPS uses the weighted moving average method of valuation.

Note 11. Stockpile Materiel, Net (in thousands)

Not applicable.

Note 12. Seized Property (in thousands)

Not applicable.

Note 13. Forfeited Property, Net (in thousands)

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net (in thousands)

Not applicable.

Note 15. Property, Plant and Equipment, Net (in thousands)

Classes of Fixed Assets:	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land			$0	$0	$0
B. Structures, Facilities, & Leasehold Improvements	SL	20	5,699	1,706	3,993
C. Military Equipment					
D. ADP Software					
E. Equipment	SL	10	77,468	48,646	28,822
F. Assets Under Capital Lease					
G. Other					
H. Natural Resources					
I. Construction-in-Progress			498	0	498
Total			$83,665	$50,352	$33,313

J. Other Information:

*Key:

Depreciation Methods	Range of Service Life	
SL - Straight Line	1-5	1 to 5 years
DD - Double-Declining Balance	6-10	6 to 10 years
SY - Sum of the Years' Digits	11-20	11 to 20 years
IN - Interest (sinking fund)	>20	Over 20 years
PR - Production (activity or use method)		
OT - Other (describe)		

Note 16. Debt (in thousands)

Not applicable.

Footnotes

Note 17. Other Liabilities (in thousands)

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
a. Advances-Government	$0	$0	$0
b. Advances-Loans			
c. Progress Payments-WIP-In-House			
d. Progress Payments-Direct Materiel			
e. Progress Payments-Other Government			
f. Military Labor			
g. Incomplete Voyage Revenue			
h. Undistributed Cash Disbursements	0	(72,051)	(72,051)
i. Accrued Reserve Revenue			
j. Miscellaneous Other Liabilities			
Total	$0	($72,051)	($72,051)

	Non-Current Liabilities	Current Liabilities	Total
2. Governmental			
a. Advances-Other	$0	$41	$41
b. Accrues Expenses-Other	0	8,701	8,701
c. Progress Payments-Contractor			
d. Miscellaneous Other Liabilities			
e. Claims			
f. Undistributed Cash Disbursements			
Total	$0	$8,742	$8,742

B. Other Information: Not applicable.

C. Other Liabilities Not Covered by Budgetary Resources:

Not applicable.

D. Other Information:

Not applicable.

Note 18. Leases (in thousands)

In FY 97, DAPS was committed to numerous operating leases and rental agreements. Generally, these leases were for the rental of equipment, space, and operating facilities. Payments under these operating leases were expensed as incurred.

Note 19. Pensions and Other Actuarial Liabilities (in thousands)

Not applicable.

Note 20. Net Position (in thousands)

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
1. Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable				
2. Undelivered Orders				
B. Invested Capital	49,549			49,549
C. Cumulative Results of Operations	(13,113)			(13,113)
D. Other	0			0
E. Future Funding Requirements				
F. Total	$36,436	$0	$0	$36,436

G. Other Information: Not applicable

Note 21. Taxes (in thousands)

Not applicable.

Note 22. Other Revenues and Financing Sources (in thousands)

Not applicable.

Note 23. Program or Operating Expenses (in thousands)

Not applicable.

Footnotes

Note 24. Cost of Goods Sold (in thousands)

A. Cost of Services Sold:

1. Beginning Work-in-Process	$0
2. Plus: Operating Expenses	386,951
3. Minus: Ending Work-in-Process	
4. Minus: Completed Work for Activity Retention	5,194
Cost of Services Sold	$381,757

1. Beginning Inventory - L.A.C.	$0
2. Less: Beginning Allowance for Unrealized	
3. Plus: Purchases at Cost	
4. Plus: Customer Returns - Credit Given	
5. Plus: DLR Exchange Credits	
6. Less: Inventory Losses Realized	
7. Less: Ending Inventory - L.A.C.	
8. Plus: Ending Allowance for Unrealized	
9. Less: Equity Transfers of Inventory to Others	
10. Plus: Equity Transfers of Inventory from Others	
11. Plus: Other	
a. Repair Cost Adjustment	
b. Beginning Allowance Adjustment from	
12. Equals: Cost of Goods Sold from Inventory	$0

C. Cost of Goods Sold from Inventory (using Historical Cost):

1. Beginning Inventory	
a. Plus: Purchases at Cost	$0
b. Plus: Inventory Gains	
c. Minus: Inventory Losses	
2. Less: Ending Inventory	
Cost of Goods Sold	$0

Note 25. Other Expenses (in thousands)

Not applicable.

Note 26. Extraordinary Items (in thousands)

Not applicable.

Note 27. Prior Period Adjustments (in thousands)

A. Prior Period Adjustments:

Not applicable.

B. Other Information: None

Note 28. Non-Operating Changes - (Transfers and Donations) (in thousands)

	1997	1996
A. Increases:		
1. Transfers-In:		
a. Transfers-Without Reimbursement-NWCF	$36	$32
b. Transfers-Without Reimbursement-Capital NWCF	(4)	0
2. Unexpended Appropriations		
3. Donations Received		
4. Other Increases-Net Position transferred from Navy	29,809	0
5. Total Increases	$29,841	$32

	1997	1996
B. Decreases:		
1. Transfers-Out:		
a. Transfers to Govt. Agency Without Reimbursement	$6,594	$17,327
b. Transfers to All Others Without Reimbursement		
c. Transfers to Others Without Reimbursement-NWCF	0	816
d. Transfers to Others Without Reimbursement-Capital		
2. Donations		
3. Other Decreases	(1,311)	(9,131)
4. Total Decreases	$5,283	$9,012
C. Net Non-Operating Changes (Transfers):	$24,558	($8,980)

D. Other Information:

Information presented under the 1996 column pertains to DPS operations while under the Navy, prior to transfer to DLA, and is for comparative purposes only.

Note 29. Intrafund Eliminations (in thousands)

Schedule A: General Fund Sales to the General Fund

Not applicable to DWCF.

Footnotes

Schedule B: DWCF Sales to DWCF

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Defense Working Capital Fund				
Defense Automated Printing Service (DAPS)	$0	$0	$0	$0
Other				
Total	$0	$0	$0	$0

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Defense Working Capital Fund				
Defense Automated Printing Service (APS)	$0	$0	$0	$0
Other				
Total	$0	$0	$0	$0

Schedule C: DWCF Sales to DoD Entities

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
DLA WCF	$0	$210,864	$0	$210,864
Unearned Revenues				
Total	$0	$210,864	$0	$210,864

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
Department of the Army	$0	$47,683	$0	$47,683
Department of the Navy		54,977		54,977
Department of the Air Force		34,104		34,104
Army WCF		474		474
Navy WCF		20,286		20,286
Air Force WCF		996		996
DFAS WCF		8,760		8,760
National Defense Stockpile				
U.S. Army Corps of Engineers				
Defense Security Asst Agency				
Other Defense Organizations		43,584		43,584
Advances				
Total	$0	$210,864	$0	$210,864

Schedule D: DWCF Sales to U.S. Government Entities

Selling Activity:

	Column A Accounts Receivable	Column B Revenue	Column C Unearned Revenue	Column D Collections
Defense Working Capital Fund	$0	$13,700	$0	$13,700
Unearned Revenue				
Total	$0	$13,700	$0	$13,700

Customer Activity:

	Column A Accounts Payable	Column B Expenses	Column C Advances	Column D Disbursements
General Services Administration	$0	$0	$0	$0
State Department				
Department of Transportation				
Advances				
Other		13,700		13,700
Total	$0	$13,700	$0	$13,700

E. Other Information: The provided information is only available to April FY 97. The activity could not obtain any more information for the rest of FY 97.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

A. Labor Transaction:

There was a problem with the last payroll in September FY97 for three Southeast area plants: the payroll file was not in the correct format. This resulted in the following: Cash was understated by $3.3 million, Expenses were overstated by $3.6 million, and Accrued Leave/Fringe Benefits was overstated by $0.3 million. Efforts to resolve this problem are underway with resolution anticipated in FY98.

Footnotes

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INDUSTRIAL PLANT EQUIPMENT

SUPPLEMENTAL INFORMATION

Overview

DEFENSE WORKING CAPITAL FUND SUPPLEMENTAL INFORMATION INDUSTRIAL PLANT EQUIPMENT DEFENSE LOGISTICS AGENCY

The Industrial Plant Equipment (IPE) Activity Group's primary function was dedicated to meeting the world-wide needs of the Department of Defense metal working machinery maintenance and the repair of current in-use Industrial Plant Equipment. IPE also supported the Military Services in time of National Emergency. The Defense Industrial Reserve Act (50 U.S.C. 451 et seq.) required IPE to provide for an industrial reserve of machine tools. Since FY 87, amendments to this Act have required the Services to pay for the repair, overhead and storage of Industrial Plant Equipment. The Services made economic decisions to engage IPE to perform reimbursable repair, rebuild or refabrication of equipment or procure new items. Eventually DLA downsized the industrial reserve to a demand based reparable inventory.

In January 1992, DLA consolidated the Defense Industrial Plant Equipment Center (DIPEC) with the Defense Supply Center Richmond (DSCR). DSCR manages the maintenance facility located in Mechanicsburg, Pennsylvania. In March 1992, the Office of Secretary of Defense (Production & Logistics) assigned single DoD Consolidated Material Management of FSG 34 reparable equipment to DLA. During FY 93, the New Procurement mission of the Industrial Plant Equipment Activity Group was transferred to the DLA Supply Management Activity Group and the Reparable Inventory storage function moved to the DLA Distribution Depots Activity Group. During FY 97, the Depot Maintenance mission of the IPE Activity Group was transferred to the Supply Management Activity Group.

The Reparable Inventory is demand based and retained for reutilization as an economic alternative to procurement of new equipment. The inventory is reported as Principal Inventory (Federal Supply Class 34) in the Supply System Inventory Report (SSIR) provided to the Office of Secretary of Defense (Production & Logistics). DSCR operates a system for the identification of metalworking machinery and performs associated federal cataloging tasks. DSCR also publishes handbooks and provides technical data in support of FSG 34 reparable machine acquisition, storage, maintenance and movement.

Following are the Principal Statements and Footnotes reflecting remaining balances and activity through the end of FY 97 for the IPE, which have been included within the DLA DWCF Consolidated Principal Statements and Footnotes. Financial activity associated with contracts let before IPE’s consolidation into Supply Management is expected to continue for the 5M appropriation for several years, at the conclusion of which all residual financial balances will be closed.

Overview

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INDUSTRIAL PLANT EQUIPMENT

PRINCIPAL STATEMENTS

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	1997	1996
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	($2,621)	($1,107)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	2,357	2,511
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	87
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	20	21
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	82	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	417	0
l. War Reserves	0	0
m. Other Entity Assets	40,420	90,129
n. Total Entity Assets	$40,675	$91,641
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	65,966	38,362
e. Total Non-Entity Assets	$65,966	$38,362
3. Total Assets	$106,641	$130,003
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$259	$458
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	(5,942)	(210)
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	23
(b) Annual Accrued Leave	0	307
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	($5,683)	$578

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	1997	1996
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	($5,683)	$578
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	112,435	128,527
c. Cumulative Results of Operations	(111)	(3,779)
d. Other	0	4,677
e. Future Funding Requirements	0	0
f. Total Net Position	$112,324	$129,425
8. Total Liabilities and Net Position	$106,641	$130,003

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	4
b. Intragovernmental	5,537	12,279
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$5,537	$12,283
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	(270)	4
b. Intragovernmental	2,142	11,734
11. Depreciation and Amortization	4	0
12. Bad Debts and Writeoffs	0	0
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	(2,113)
15. Total Expenses	$1,876	$9,625
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$3,661	$2,658
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$3,661	$2,658

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$129,425	$135,834
20. Adjustments (Note 27)	7	(93)
21. Net Position, Beginning Balance, as Restated	$129,432	$135,741
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	3,661	2,658
23. Plus (Minus) Non Operating Changes (Note 28)	(20,769)	(8,974)
24. Net Position, Ending Balance	$112,324	$129,425

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$3,661	$2,658
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	155	(1,232)
4. Decrease (Increase) in Other Assets	(183)	(75)
5. Increase (Decrease) in Accounts Payable	(5,931)	(2,298)
6. Increase (Decrease) in Other Liabilities	(330)	224
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	(291)
9. Other Adjustments	7	(93)
10. Total Adjustments	($6,282)	($3,765)
11. Net Cash Provided (Used) by Operating Activities	($2,621)	($1,107)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	$0	$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(1,107)	(3,288)
23. Net Appropriations	$1,107	$3,288

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Industrial Plant Equipment
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	$1,107	$3,288
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($1,514)	$2,181
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(1,107)	(3,288)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	($2,621)	($1,107)

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	($22,105)	($12,262)

The accompanying notes are an integral part of these statements.

Principal Statements

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

INDUSTRIAL PLANT EQUIPMENT

FOOTNOTES

Footnotes

DEFENSE WORKING CAPITAL FUND
INDUSTRIAL PLANT EQUIPMENT
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997

Note 1. Summary of 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) Industrial Plant Equipment Activity Group (IPE), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of IPE in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M), and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, IPE accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the IPE financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

The overall mission of the IPE is to repair, overhaul, rebuild, and modify industrial plant equipment for the Military Services. This Activity Group also supplies depot maintenance support to the DLA National General Reserves of IPE and provides on site repair services at DoD industrial activities. This mission is funded through the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5M.

The CFO Act requires IPE, as a business entity under DWCF, to provide audited financial statements. FY 97 represents the sixth year that IPE has prepared financial statements as required by the CFO Act. Effective FY 97, this Activity Group was operationally merged with the DLA Supply Management Activity Group.

C. Budgets and Budgetary Accounting:

IPE received an annual operating budget that provided total cost authority in unit cost terms. Unit Cost Resourcing provided the operating expense authority for items such as salaries, non-labor expenses, and materiel. Cost authority or the amount "earned" depended on the actual work load times the unit cost.

IPE also received a capital budget that provided the obligation authority for the purchase of equipment, minor construction, ADP and telecommunications, and software development.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources:

Revenues and financing sources for IPE consist of reimbursements from customers for services provided. Revenues are recognized when the service has been performed.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by OSD, IPE obtains cash receipt and disbursement information from the finance network/Cash Outlay System Report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/Cash Outlay System Report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

IPE does not transact business in foreign currencies.

I. Accounts Receivable:

Accounts receivable are reflected from Federal and non-federal sources. An allowance for uncollectible accounts has not been established as IPE has not experienced significant uncollectible amounts. The accounting systems classify receivables as from government sources and from public sources.

Accounts receivable include amounts which represent the differences between collections on the general ledger and those which have been reported through the finance network/Cash Outlay System Report. As a result of the transfer of accounting and management responsibilities, DLA has limited capability to reconcile these differences.

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for details on the amounts of these transactions at year-end.

J. Loans Receivable:

IPE does not lend money.

K. Inventories:

IPE repairs, overhauls, rebuilds and modifies industrial plant equipment; however, IPE owns no materiel inventory.

L. Investments in U.S. Government Securities:

IPE does not invest in U.S. Government securities.

M. Property, Plant and Equipment:

This Activity Group capitalizes equipment according to DWCF policy, when the following criteria are met:

- Acquisition cost, book value, or when applicable, an estimated fair market value is greater than or equal to $15,000 for FY 93, greater than or equal to $25,000 for FY 94, greater than or equal to $50,000 for FY 95, and greater than or equal to $100,000 for FY 96 and FY 97.

- Estimated useful life is two years or more.

Capital assets in IPE are input at the detail level into the Defense Property Accountability System (DPAS). DPAS transmits summarized information to the Defense Business Management System (DBMS) for financial reporting purposes. Capital assets are reported at their acquisition cost less any accumulated depreciation. The acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. Depreciation is recorded on a straight-line basis. The capital assets for IPE include items such as ADP equipment and industrial equipment.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment. As a result, property, plant and equipment accounting records are inaccurate and incomplete.

IPE is currently pursuing milestones to properly reflect all capital assets in its financial statements; however, to date, IPE has not recorded all property, plant and equipment for which it is responsible. As a result, depreciation expense may also be understated.

Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods and services are received.

O. Leases:

IPE is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

IPE may also be party (as lessee) to a limited number of leases that meet the capital lease criteria. However, the accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized, but expensed as incurred.

P. Contingencies:

This Activity Group is obligated for goods and services that have been ordered but not yet received and paid. Total undelivered orders amounted to $1,296,433 (in whole dollars) as of September 30, 1997.

IPE may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect IPE operations or financial position. Therefore, no contingent liabilities have been recognized in the Statements of Financial Position.

Q. Accrued Leave:

Not applicable.

R. Equity:

Equity consists of capitalized assets, cumulative results of operations, future funding requirements and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to IPE.

T. Treaties for Use of Foreign Bases:

IPE has not entered into treaties for the use of foreign bases.

U. Comparative Data:

The financial statements present FY 96 and FY 97 amounts.

V. Restatement of Prior Year Principal Statements:

Not applicable.

W. Unpaid Obligations and Undelivered Orders:

This Activity Group is obligated for goods and services that have been ordered but not yet received. Total undelivered orders amounted to $1,296,433 (in whole dollars) as of September 30, 1997.

Note 2. Fund Balances with Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

Not applicable

B. Working Capital Fund Activities Below USD(C) Level:

Entity Assets:	1997	1996
Beginning Balance	$ (1,107)	$ (3,288)
Transfers of Cash to Others (reverse sign)	1,107	3,288
Transfers of Cash from Others (reverse sign)	0	0
Funds Collected	5,692	11,051
Funds Disbursed	(8,312)	(12,158)
Ending Balance	$ (2,621)	$ (1,107)

C. Working Capital Fund Activities and All Other Funds and Accounts:

Not applicable.

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/Cash Outlay System Report and Service listings. The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger amounted to $774,753 (in whole dollars). This amount is reported as an increase to accounts receivable. The difference between cash disbursements in the finance network/Cash Outlay System Report and the general ledger amounted to $8,713,954 (in whole dollars). This amount is reported as a decrease to accounts payable.

Note 3. Cash, Foreign Currency and Other Monetary Assets

Not applicable.

Note 4. Investments

Not applicable.

Note 5. Accounts Receivable, Net

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$ 2,357	0	na	$ 2,357
Governmental	20	0	na	20
B. Non-Entity Receivables:				
Intragovernmental	0	0	na	0
Governmental	0	0	na	0

C. Other Information:

The difference between cash collections in the finance network/Cash Outlay System Report and the general ledger amounted to $774,753 (in whole dollars). This amount is recorded as an increase to accounts receivable (Intragovernmental).

Accounts receivable also include numerous over-aged and negative transactions. These transactions are currently under investigation for system and processing deficiencies. See Note 31 for details on the amounts of these transactions at year-end.

Footnotes

Note 6. Other Assets

Not applicable.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers

Not applicable.

Note 8. Inventory, Net

Not applicable.

Note 9. Work in Process

Not applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

Not applicable.

Note 11. Stockpile Materiel, Net

Not applicable.

Note 12. Seized Property

Not applicable.

Note 13. Forfeited Property, Net

Not applicable.

Note 14. Goods Held Under Price Support and Stabilization

Not applicable.

Note 15. Property, Plant and Equipment, Net

Classes of Fixed Assets	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. Land:	-	-	$ 0	$ 0	$ 0
B. Structures, Facilities, & Leasehold Improvs:	-	-	0	0	0
C. Military Equipment:	-	-	0	0	0
D. ADP:	-	-	0	0	0
E. Equipment-NonMilitary:	-	-	421	4	417
F. Assets under Capital Lease:	-	-	0	0	0
G. Other:	-	-	0	0	0
H. Natural Resources:	-	-	0	0	0
I. Construction in Progress:	-	-	0	0	0
TOTAL			$ 421	$ 4	$ 417

* Key:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digit	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	
OT - Other (describe)	

J. Other Information

Capital assets in IPE are accounted for in the Appropriation Accounting Subsystem of Defense Business Management System (DBMS).

Traditional fund management, prior to DWCF (formerly known as DBOF), did not require the calculation of depreciation on property, plant and equipment. As a result, property, plant and equipment was not always reflected on the accounting records.

Documentation to support the recorded acquisition cost of many older properties is unavailable. Additionally, DoD believes it is not cost effective in many cases to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

DLA believes that the capital assets recorded in the general ledger may be understated by a material amount.

Note 16. Debt

Not applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

Not applicable.

B. Other Information:

Not applicable.

C. Other Liabilities Not Covered by Budgetary Resources:

1. Intragovernmental: Not applicable.

2. Governmental: Not applicable.

D. Other Information

Not applicable.

Note 18. Leases

A . Entity as Lessee:

Operating Leases

IPE is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities.

IPE generally leases facilities and equipment from year to year under Interagency Service Agreements. Although these agreements may extend for longer than a year, the majority can be renegotiated, and thus, not considered noncancellable. Rental expense associated with these agreements is expensed when paid.

B. Entity as Lessor:

Not applicable.

C. Other Information:

Not applicable.

Note 19. Pensions and Other Actuarial Liabilities

Not applicable.

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated				
a. Available	$ 0	$ 0	$ 0	$ 0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital	112,435	0	0	112,435
C. Cumulative Results of Operations:	(111)	0	0	(111)
D. Other:	0	0	0	0
E. Future Funding Requirements:	0	0	0	0
F. Total:	$ 112,324	$ 0	$ 0	$ 112,324

G. Other Information:

Not applicable.

Note 21. Taxes

Not applicable.

Note 22. Other Revenue and Financing Sources

Not applicable.

Footnotes

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:

Not applicable.

B. Operating Expenses by Program:

Not applicable.

C. Other Information:

Not applicable.

Note 24. Cost of Goods Sold (in thousands):

	1997	1996
A. Cost of Services Sold:		
(1) Beginning Work-in-Process	$ 0	$ 0
(2) Plus: Operating Expenses	1,872	11,738
(3) Minus: Ending Work-in-Process	0	0
(4) Minus: Completed work for Activity Retention	0	0
Cost of Services Sold	$ 1,872	$ 11,738

B. Other Information:

Operating Expenses by Object Classification:	1997	1996
(1) Personal Services and Benefits	$ (306)	$ 16
(2) Travel and Transportation	(154)	6,139
(3) Rental, Communications and Utilities	0	25
(4) Printing and Reproduction	0	0
(5) Contractual Services	2,044	1
(6) Supplies and Materials	257	3,104
(7) Equipment not Capitalized	(6)	2,057
(8) Grants, Subsidies and Contributions	0	395
(9) Insurance Claims and Indemnities	0	0
(10) Other	37	1
Total Expenses by Object Class	$ 1,872	$ 11,738

Note 25. Other Expenses

	1997	1996
A. Other Expenses:		
(1) Prior Year Liability Adjustment	0	(2,113)
Total	$ 0	$ (2,113)

B. Other Information:

Not applicable.

Note 26. Extraordinary Items

Not applicable.

Note 27. Prior Period Adjustments

	1997	1996
A. Prior Period Adjustments:		
(1) Prior Period Expense Adjustment	7	(93)
Total	$ 7	$ (93)

B. Other Information

Not applicable

Note 28. Non-Operating Changes (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:	$ 1,107	$ 3,288
(a) Cash	0	0
(2) Donations received	0	0
(3) Other Increases	0	0
(4) Total Increases	$ 1,107	$ 3,288
B. Decreases:		
(1) Transfers-Out		
(a) Cash	$ 0	$ 0
(2) Donations	0	0
(3) Other Decreases	(21,876)	(12,262)
(4) Total Decreases	$ (21,876)	$ (12,262)
C. Net Non-Operating Changes (Transfers):	$ (20,769)	$ (8,974)

D. Other Information:

“Other Decreases” are outlined below:	Amount
Change in Capital Assets from FY 96 to FY 97	$ 229
FY 96 Other Entity and Non-Entity Assets	(128,491)
FY 97 Other Entity and Non-Entity Assets	106,386
Prior Year Fund Balance Transfer	1,107
Total	$ (20,769)

Note 29. Intrafund Eliminations

Schedule A:

Not applicable.

Schedule B: (DLA, Working Capital Fund to DLA, Working Capital)

Selling Activity:	**Column A** Accounts Receivable †	**Column B** Revenue	**Column C** Unearned Revenue	**Column D** Collections †
DLA, Industrial Plant and Equipment	$ (56)	$ (238)	$ 0	$ (223)
	$ (56)	$ (238)	$ 0	$ (223)

Customer Activity:	**Column A** Accounts Payable †	**Column B** Expenses	**Column C** Advances	**Column D** Disbursements †
Intra DLA Support	$ (1)	$ 0	$ 0	$ 0
DLA Between DLA	0	1	0	1
Intra-DLA (Def Stock Fnd or Indus Fnd)	(55)	(239)	0	(224)
	$ (56)	$ (238)	$ 0	$ (223)

† See Other Information below.

Schedule C: (Department of Defense to Department of Defense)

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Receivable†	Revenue	Unearned Revenue	Collections †
DLA, Industrial Plant and Equipment	$ 1,281	$ 5,434	$ 0	$ 5,088
	$ 1,281	$ 5,434	$ 0	$ 5,088

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Payable †	Expenses	Advances	Disbursements†
Navy, Marine Corps	$ 649	$ 2,820	$ 0	$ 2,641
Army	256	1,112	0	1,041
Air Force	343	1,489	0	1,394
FMS, Materiel & Svcs (FCAS)	30	0	0	0
Other Defense Agencies	3	13	0	12
	$ 1,281	$ 5,434	$ 0	$ 5,088

† See Other Information below.

Schedule D: (Department of Defense to Other Government Agencies)

Selling Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Receivable†	Revenue	Unearned Revenue	Collections †
DLA, Industrial Plant and Equipment	$ 1,132	$ 341	$ 0	$ 826
	$ 1,132	$ 341	$ 0	$ 826

Customer Activity:	**Column A**	**Column B**	**Column C**	**Column D**
	Accounts Payable †	Expenses	Advances	Disbursements†
US Postal Service	$ 0	$ 0	$ 0	$ 0
GSA	348	341	0	923
Other	784	0	0	(97)
	$ 1,132	$ 341	$ 0	$ 826

† See Other Information below.

Other Information †:

For Schedules B, C, and D, earnings were shown at a detail source code level in the General Ledger Trial Balance, thus allowing Expenses to be shown at the lowest Customer Activity Level above. However, Accounts Receivable and Collections are not reflected in the General Ledger Trial Balance using the same detail source code level; therefore, detail level Accounts Payable and Disbursements were computed using a percentage of Earnings in order to be shown at the same Customer Activity level.

Note 30. Contingencies

Not applicable.

Note 31. Other Disclosures

	1997	1996
A. Other Entity and Non-entity Assets		
Entity Assets		
(1) Reparable Inventory	$ 30,330	$ 0
(2) Due in to Storage	2,028	0
(3) On loan to Other Agencies	8,062	0
(4) Equipment held by Contractors	0	90,129
Total Entity Assets	$ 40,420	$ 90,129
Non-entity Assets		
(1) Reparable Inventory	$ 0	$ 28,359
(2) On loan to Other Agencies	0	10,003
(3) Equipment held by Contractors	65,966	0
Total Non-entity Assets	$ 65,966	$ 38,362
Total Entity & Non-entity Assets	$ 106,386	$ 128,491

For FY 92, 93, 94, 95, and 96, Other Entity Assets and Other Non-entity Assets were reversed. After reviewing the CFO Form and Content, it was determined that Equipment held by Contractors should be classified as Other Non-Entity Assets and Reparable Inventory, Items Due in to Storage, and Items on loan to Other Agencies should all be classified as Other Entity Assets.

In order to update the financial statements to include industrial machinery in storage and on loan not previously recorded, IPE reported adjustments to "Other Non-Entity Assets" in the amounts of $60,768,873, $60,342,023, $45,685,291, and $38,362,000 for FY 93, FY 94, FY 95, and FY 96, respectively (all amounts are in whole dollars). These amounts include reparable inventory and equipment on loan to other governmental agencies reported at original acquisition cost. These also include tools on loan to schools which are considered unserviceable and were written down. Data for this equipment is maintained on a local database at the Defense General Supply Center. In FY 97, the amounts for reparable inventory, equipment on loan to other governmental agencies, and items due in to storage were reclassified as “Other Entity Assets.” Amounts for these FY 97 assets are $30,329,802, $8,062,794, and $2,027,863, respectively.

In FY 95 and FY 96, IPE also made an adjustment to "Other Entity Assets" to report equipment held by contractors at original acquisition cost in the amount of $95,067,951, and $90,129,298, respectively (all amounts are in whole dollars). This equipment had not previously been reported on IPE's financial records. The Federal Acquisition Regulation (FAR) prohibits DLA from maintaining its own accountability records for such equipment. IPE must therefore rely on the Form 1662 reports submitted to the government by contractors, which identify DLA equipment in contractors’ hands as of September 30th. For FY 97, this equipment was reported under “Other Non-Entity Assets” in the amount of $65,965,657 (in whole dollars).

B. Calculation of Undistributed Cash (in dollars):

Undistributed DISBURSEMENTS (In Dollars)	DBMS General Ledger	Cash Outlay System ††	Difference
30-Sep-97	3,758,453	8,312,387	(4,553,934)
30-Sep-96	12,078,228	12,157,715	(79,487)
30-Sep-95	17,383,380	16,021,853	1,361,527
30-Sep-94	27,600,362	28,390,840	(790,478)
30-Sep-93	27,233,007	30,216,266	(2,983,259)
30-Sep-92	27,394,162	29,062,485	(1,668,323)
Cumulative Undistributed Disbursements			(8,713,954)

†† Under the guidance and authority of the Defense Finance and Accounting Service, Headquarters (DFAS-HQ), a $5,000,000 (in dollars) Net Cash Outlay was transferred to the Industrial Plant Equipment Activity Group from the Corporate Account in FY 97.

Footnotes

Undistributed COLLECTIONS (In Dollars)	DBMS General Ledger	Cash Outlay System	Difference
30-Sep-97	5,787,945	5,691,772	96,173
30-Sep-96	11,126,399	11,050,735	75,664
30-Sep-95	11,904,018	12,733,639	(829,621)
30-Sep-94	30,008,165	28,723,383	1,284,782
30-Sep-93	41,579,163	41,211,579	367,584
30-Sep-92	16,126,699	16,345,739	(219,040)
Cumulative Undistributed Collections			775,542

C. Accounts Receivable adjusted for Undistributed Collections (in thousands):

Accounts Receivable Adjusted for Undistributed Collections	$	2,377
less: Accounts Receivable per Agency Records		(1,601)
Undistributed Collections	$	776

D. Accounts Payable adjusted for Undistributed Disbursements (in thousands):

Accounts Payable Adjusted for Undistributed Disbursements	$	(5,682)
less: Accounts Payable per Agency Records		(3,032)
Undistributed Disbursements	$	(8,714)

E. Unmatched Disbursements, Negative Unliquidated Obligations, and Totals

Defense Agencies (TI 97) Defense Logistics Agency Appropriations	September 1996 (thousands)	September 1997 (thousands)	Change (thousands)	% Change
Unmatched Disbursements	Not Reported	$ 661	$ 661	100%
Negative Unliquidated Obligations	Not Reported	581	581	100%
Aged In-Transit Disbursements	Not Reported	0	0	0%
Totals:	Not Reported	$ 1,242	$ 1,242	100%

Footnotes

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

CLOTHING FACTORY

SUPPLEMENTAL INFORMATION

DEFENSE WORKING CAPITAL FUND
SUPPLEMENTAL INFORMATION
CLOTHING FACTORY
DEFENSE LOGISTICS AGENCY

Through FY 94 DLA had a sixth Activity Group, the Clothing Factory (97X4930.5Q). Effective September 30, 1994, the Clothing factory was closed under the Defense Base Realignment and Closure Act (BRAC). At that date, all of its operations were discontinued, except for the Flag and Embroidery function which was transferred to Clothing & Textiles (C&T), located at the DPSC, Philadelphia, PA.

Following are the Principal Statements and Footnotes reflecting remaining balances and activity through the end of FY 97 for the Clothing Factory, which have been included within the DLA DWCF Consolidated Principal Statements and Footnotes. All residual financial balances were closed during FY 97.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

CLOTHING FACTORY

PRINCIPAL STATEMENTS

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	**1997**	**1996**
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$8,722
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	0	0
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	2,168
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	1,653
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	2,267
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	$0	$14,810
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	$0	$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	1997	1996
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	$0	$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	$0	$0
3. Total Assets	$0	$14,810
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	$0	$0

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	**1997**	**1996**
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	$0	$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	$0	$0
6. Total Liabilities	$0	$0
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	$0	$0
b. Invested Capital	0	0
c. Cumulative Results of Operations	0	(1,908)
d. Other	0	16,718
e. Future Funding Requirements	0	0
f. Total Net Position	$0	$14,810
8. Total Liabilities and Net Position	$0	$14,810

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	$0	$0
2. Revenues from Sales of Goods and Services		
a. To the Public	0	0
b. Intragovernmental	0	4
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	$0	$4
EXPENSES		
9. Program or Operating Expenses (Note 23)	$0	$3,202
10. Cost of Goods Sold (Note 24)		
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	0	16
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	0	0
15. Total Expenses	$0	$3,218
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	$0	($3,214)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	($3,214)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	$14,810	$15,079
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	$14,810	$15,079
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0	(3,214)
23. Plus (Minus) Non Operating Changes (Note 28)	(14,810)	2,945
24. Net Position, Ending Balance	$0	$14,810

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$0	($3,214)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	0	4,632
4. Decrease (Increase) in Other Assets	0	0
5. Increase (Decrease) in Accounts Payable	0	7,304
6. Increase (Decrease) in Other Liabilities	0	0
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	0
10. Total Adjustments	$0	$11,936
11. Net Cash Provided (Used) by Operating Activities	$0	$8,722
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	$0	$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	$0	$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	$0	$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	2,945
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	8,722	0
23. Net Appropriations	($8,722)	$2,945

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency - Working Capital Fund - Clothing Factory
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	$0	$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
29. Net Cash Provided (Used) by Financing Activities	($8,722)	$2,945
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	($8,722)	$11,667
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	8,722	(2,945)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$0	$8,722

Supplemental Disclosure of Cash Flow Information:	1997	1996
33. Total Interest Paid	$0	$0

Supplemental Schedule of Financing and Investing Activity:	1997	1996
34. Property and Equipment Acquired Under Capital Lease Obligations	$0	$0
35. Property Acquired Under Long-Term Financing Arrangements	$0	$0
36. Other Exchanges of Non-cash Assets or Liabilities	($6,088)	$0

The accompanying notes are an integral part of these statements.

DEFENSE LOGISTICS AGENCY

WORKING CAPITAL FUND

CLOTHING FACTORY

FOOTNOTES

DEFENSE WORKING CAPITAL FUND
CLOTHING FACTORY
NOTES TO THE PRINCIPAL STATEMENTS
AS OF 30 SEPTEMBER 1997

Note 1. Summary of 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) Clothing Factory Activity Group (Clothing), as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the accounting records of Clothing in accordance with the hierarchy of accounting standards as prescribed by the Federal Accounting Standards Advisory Board (FASAB), OMB Bulletin 94-01 and supplemental DoD guidance. The accounting standards prescribed by the FASAB, in the DoD Accounting Manual (DoD 7220.9-M) and in the Financial Management Regulation (DoD 7000.14-R) were followed, as appropriate. To the extent that guidance is not provided by one of these standards, Clothing accounts for transactions in accordance with guidance promulgated by the GAO, OMB, Department of Treasury, and commercial Generally Accepted Accounting Principles. These statements differ from the Clothing financial reports prepared to monitor and control the use of budgetary resources. Amounts presented in the financial statements and footnotes are rounded to the nearest thousand dollars unless otherwise indicated.

B. Reporting Entity:

Clothing manufactured clothing and textile items for all DoD components. Effective September 30, 1994, the Clothing factory was closed under the Defense Base Realignment and Closure Act (BRAC). At that date, all of its operations were discontinued, except for the Flag and Embroidery function, which was transferred to Clothing & Textiles. DoD policy for the Personal Property Utilization and Disposal Program requires all installations cited for closure to cooperate with the community in identifying related property that may be available for civilian use. All residual balances have been researched and closed. Clothing's mission was funded through the Defense Business Operations Fund (DBOF) now known as the Defense Working Capital Fund (DWCF). The appropriation symbol is 97X4930.5Q.

The CFO Act requires Clothing, as a business entity under DWCF, to provide audited financial statements. FY 97 represents the sixth year that Clothing has prepared financial statements as required by the CFO Act.

C. Budgets and Budgetary Accounting:

The Clothing Factory is no longer operational. Therefore, no budget authority was granted.

D. Basis of Accounting:

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources:

Revenues and financing sources for Clothing consist of reimbursements from customers (primarily DLA Supply Management and the Base Realignment and Closure (BRAC) account) for work performed and services rendered. Revenues are recognized on a percentage of physical completion basis.

F. Accounting for Intragovernmental Activities:

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand alone entity.

Also, financing for the construction of DoD facilities is obtained through appropriations from Congress. To the extent that this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized because the Treasury Department does not allocate interest costs to the benefiting agencies.

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

Generally, Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Cash balances are not allocated to the Activity Groups. As a result, only cash collections, disbursements, and transfers are presented on the statements of financial position.

In accordance with guidance issued by the Office of the Secretary of Defense (OSD), Clothing obtains cash receipt and disbursement information from the finance network/ACRS cash report. This report is not reconciled to the Statements of Transactions on a timely basis and contains differences from amounts recorded on the general ledger. Differences between the finance network/ACRS cash report and general ledger balances are recorded as "undistributed" amounts in Accounts Receivable and Accounts Payable.

H. Foreign Currency:

Clothing does not transact business in foreign currencies.

I. Accounts Receivable:

Accounts receivable were reflected from Federal and non-federal sources but are now zero. An allowance for uncollectible accounts was not established, as Clothing had not experienced significant uncollectible amounts.

J. Loans Receivable:

Clothing did not lend money.

K. Inventories:

No inventories remain.

L. Investments in U.S. Government Securities:

Clothing did not invest in U.S. Government securities.

M. Property, Plant and Equipment:

All Property, Plant and Equipment has been disposed of.

N. Prepaid and Deferred Charges:

Payments before the receipt of goods and services are recorded as advances at the time of prepayment. Expenses are recognized when the related goods are received or services are performed.

O. Leases:

Clothing is not committed to operating or capital leases.

P. Contingencies:

Clothing may be party to various legal and administrative claims and actions. In management's opinion, the resolution of these actions will not materially affect Clothing's operations or financial position. Therefore, no contingent liabilities have been recognized in the Statement of Financial Position.

Q. Accrued Leave:

As Clothing ceased operation on 30 September 1994, and no longer has employees, accrued leave does not apply.

R. Equity:

Equity consists of invested capital, cumulative results of operations and other equity balances.

S. Aircraft/Ship Crashes:

This does not apply to Clothing.

T. Treaties for Use of Foreign Bases:

Clothing has not entered into treaties for the use of foreign bases.

U. Comparative Data:

The financial statements present FY 96 and FY 97 amounts.

V. Restatement of Prior Year Principal Statements:

Not Applicable.

W. Undelivered Orders:

Not Applicable.

Note 2. Fund Balances with Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

Not Applicable.

B. Working Capital Fund Activities Below USD(C) Level:

Entity Assets:

	1997	1996
Beginning Balance	$8,722	($2,945)
Transfers of Cash to Others	(8,722)	0
Transfers of Cash from Others	0	2,945
Funds Collected	0	4,620
Funds Disbursed	0	4,102
Ending Balance	0	8,722

C. Business Operations Fund Activities and All Other Funds and Accounts:

Not Applicable.

D. Other Information:

Cash collections and disbursements data for the financial statements is obtained from the finance network/ACRS cash report and Service listings. The differences between cash disbursements in the finance network/ACRS cash report and the general ledger amount to $51,565. The ACRS cash report is reporting $49,583 in reverse disbursements erroneously reported by the Department Of The Navy which should have been charged to 97X4930.5F30. These charges commenced in May 1997 and the Department of the Navy was advised of the error as each charge appeared, but they have not yet been reversed. These charges have not been reflected in these reports. A reverse disbursement in the amount of $1,982, appearing on the Military Service Listings for September 1997, has been determined to be in error and should have been processed to 97X4930.AC67. This charge also has not been reflected in this report. Without these erroneous charges, the difference between activity general ledger cash and ACRS cash amounts to zero.

Note 3. Cash, Foreign Currency and Other Monetary Assets

Not Applicable.

Note 4. Investments

Not Applicable.

Note 5. Accounts Receivable

	(1) Gross Amount Due	(2) Allowance For Estimated Uncollectibles	(3) Allowance Method Used	(4) Net Amount Due
A. Entity Receivables:				
Intragovernmental	$0	$0	n/a	$0
Governmental	0	0	n/a	0
B. Non-Entity Receivables:				
Intragovernmental	0	0	n/a	0
Governmental	0	0	n/a	0

C. Other Information: Not applicable

.

Note 6. Other Assets

Not Applicable.

Note 7. Loans and Guarantees, Non-Federal Borrowers

Not Applicable.

Note 8. Inventory, Net

	(1) Inventory Amount	(2) Allowance for Losses	(3) Inventory, Net	(4) Valuation Method
A. Inventory Categories				
(1) Held for Current Sale	$0	$0	$0	
(2) Held in Reserve for Future Sale	0	0	0	
(3) Excess, Obsolete and Unserviceable	0	0	0	
(4) Held for Repair	0	0	0	
Total	$0	$0	$0	

B. Restrictions on Inventory Use, Sale, or Disposition:

Not Applicable.

C. Other Information:

Not Applicable.

Note 9. Work in Process

Not Applicable.

Note 10. Operating Materials and Supplies (OM&S), Net

	(1) OM&S Amount	(2) Allowance for Losses	(3) OM&S, Net	(4) Valuation Method
A. OM&S Categories:				
(1) Held for Use	$0	$0	$0	
(2) Held in Reserve for Future Sale	0	0	0	
(3) Excess, Obsolete and Unserviceable	0	0	0	
(4) Held for Repair	0	0	0	
Total	$0	$0	$0	

B. Restrictions on Operating Materials and Supplies:

Not Applicable.

C. Other Information:

Not Applicable.

Note 11. Stockpile Materials, Net

Not Applicable.

Note 12. Seized Property

Not Applicable.

Note 13. Forfeited Property, Net

Not Applicable.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not Applicable.

Note 15. Property, Plant and Equipment, Net

	(1) Depreciation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
A. Land:			$0	$0	$0
B. Structures, Facilities & Leasehold Improvements:			0	0	0
C. Military Equipment:			0	0	0
D. ADP:			0	0	0
E. Equipment:			0	0	0
F. Assets under Capital Lease:			0	0	0
G. Other:			0	0	0
H. Natural Resources:			0	0	0
I. Construction in Progress:			0	0	0
Total:			$0	$0	$0

* Key:

Depreciation Methods	Range of Service Life
SL - Straight Line	1-5 - 1 to 5 Years
DD - Double-Declining Balance	6-10 - 6 to 10 Years
SY - Sum of the Years' Digit	11-20 - 11 to 20 Years
IN - Interest (sinking fund)	>20 - Over 20 Years
PR - Production (activity or use method)	

J. Other Information:

Capital assets in Clothing are accounted for manually. Effective September 30, 1994, the Clothing factory was closed under the Defense Base Realignment and Closure Act (BRAC). At that date, all of its operations were discontinued. No residual balances remain.

Note 16. Debt

Not Applicable.

Note 17. Other Liabilities

A. Other Liabilities Covered by Budgetary Resources:

Not Applicable.

B. Other Information:

Not Applicable.

C. Other Liabilities Not Covered by Budgetary Resources:

Not Applicable.

D. Other Information:

Not Applicable.

Note 18. Leases

Not Applicable.

Note 19. Pensions and Other Actuarial Liabilities

Not Applicable.

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$0	$0	$0	$0
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	0	0
B. Invested Capital:	0	0	0	0
C. Cumulative Results of Operations:	0	0	0	0
D. Other	0	0	0	0
E. Future Funding Requirements:	0	0	0	0
F. Total:	$0	$0	$0	$0

G. Other Information:

No residual balances remain.

Note 21. Taxes

Not Applicable.

Note 22. Other Revenue and Financing Sources

Not Applicable.

Footnotes

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:

		1997	1996
(1)	Personal Services and Benefits	$0	$2,855
(2)	Travel and Transportation	0	43
(3)	Rental, Communication and Utilities	0	107
(4)	Printing and Reproduction	0	0
(5)	Contractual Services	0	215
(6)	Supplies and Materials	0	(19)
(7)	Equipment not Capitalized	0	1
(8)	Grants, Subsidies and Contributions	0	0
(9)	Insurance Claims and Indemnities	0	0
(10)	Other	0	0
(11)	Total Expenses by Object Class	$0	$3,202

Note 24. Cost of Goods and Services Sold

A. Cost of Services Sold:

		1997
(1)	Beginning Work-in-Process	$0
(2)	Plus: Operating Expenses	0
(3)	Minus: Ending Work-in-Process	0
(4)	Minus: Completed Work for Activity Retention	0
Cost of Services Sold:		$0

B. Cost of Material Sold from Inventory

Not applicable.

Note 25. Other Expenses

A. Other Expenses

(1) Unfunded Annual Leave	$0
Total	$0

Note 26. Extraordinary Items

Not Applicable.

Note 27. Prior Period Adjustments

Not Applicable.

Note 28. Non-Operating Changes - (Transfers and Donations)

A. **Increases:**	1997	1996
(1) Transfers-In:		
(a) Pr. Yr. Fund Bal. with Treasury	$0	$2,945
(2) Donations Received	0	0
(3) Other Increases	0	0
(4) Total Increases	$0	$2,945

B. **Decreases:**	1997	1996
(1) Pr Yr Fund Bal with Treasury	$8,722	$0
(2) Inventory Transf. Out	3,821	0
(3) Property, Plant & Equip	2,267	0
(4) Total Decreases	$14,810	$0
C. **Net Non-Operating Changes (Transfers):**	$ (14,810)	$ 2,945

D. Other Information:

Not Applicable.

Note 29. Intrafund Eliminations

No reported current year activity exists.

Note 30. Contingencies

Not Applicable.

Note 31. Other Disclosures

A. Unmatched Disbursements, Negative Unliquidated Obligations, And Aged In-transit Disbursements:

None.