
Integrity, Resiliency, Diversity, Innovation, Accountability, Excellence
Defense Logistics Agency
Annual Financial Report
The Warfighters Logistics Combat Support Agency
Fiscal Year 2015

Defense Logistics Agency
Defense Working Capital Fund and General Fund
Fiscal Year (FY) 2015 Agency Financial Report

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INTRODUCTION

The Defense Logistics Agency (DLA) is the Combat Logistics Support Agency of the Department of Defense (DoD). DLA's Agency Financial Report (AFR) for fiscal year (FY) 2015 provides fiscal and high-level performance results that enable the President, the Secretary of Defense, the Congress, and the American people to assess DLA's performance for the reporting period October 1, 2014 through September 30, 2015. The AFR provides an overview of the programs, accomplishments, challenges, and accountability for the resources entrusted to the Agency. This report was prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Organization of This Report

The DLA AFR includes a message from the DLA Director, followed by three sections and appendices:

- Management's Discussion and Analysis describes DLA's mission and organizational structure; strategic goals and highlights of accomplishments; analysis of the financial statements and stewardship information; systems, controls, and legal compliance, including the Director's annual Statement of Assurance; and other management information and initiatives.

- The DLA Chief Financial Officer (CFO) message followed by the unaudited financial statements and accompanying footnotes. DLA's financial statements will be audited beginning in FY 2016.

- Other Information includes DLA's report required by the Improper Payments Information Act, as amended. DLA did not receive an independent report from the DoD Inspector General (IG) on the top management challenges facing the Agency; the IG issued a consolidated report for DoD, which is presented in the DoD AFR.

- A list of acronyms is included as an appendix to this report.

DLA Welcomes Your Comments

DLA welcomes your comments and suggestions regarding this report. Please contact DLA at: http://www.dla.mil/AboutDLA/ContactUs.aspx

MESSAGE FROM THE DIRECTOR
OCTOBER 2015

It is an incredible honor for me to be back for a third tour at the Defense Logistics Agency (DLA) to lead this amazing logistics enterprise. Our mission is incredibly important to the warfighter and to the disaster response apparatus of our national government. We are successful in that mission because of the professionalism and dedication of the workforce.

While we have seen great success, this is a critical time for the department and for the country. Our nation expects and demands excellence, and our job is to ensure continued logistics superiority in the face of continued budget uncertainty. Here at DLA, we are committed to our nation's warfighters, and we do amazing things for them. We are also committed stewards of the taxpayers' money and will constantly seek to get them the best deal. I believe the only way to keep doing these things is through a continued evolution to excellence – excellent response time, excellent delivery rate and excellent customer service. We are already providing that excellent service to non-DoD agencies as well and we are the team to keep doing it.

The DLA vision is delivering the right solution on time, every time. We embody this vision by working together to anticipate and meet the demands of the constantly changing circumstances our Warfighters face. By translating words into actions, our people and teams go out of their way to ensure the right choices are being made at every level. DLA achieved a very significant Agency milestone on September 30, 2015, when I signed the transmittal memorandum to the Office of the Secretary of Defense (Comptroller) indicating DLA's readiness for financial audit in the following areas: DLA Defense Working Capital Fund; DLA General Fund [appropriated accounts]; and DLA Transaction Fund. DLA's assertions came two years ahead of the congressionally mandated 2017 target. This accomplishment proved once again that DLA is the DoD leader for financial stewardship and can take on any challenge no matter how difficult or complex. Most importantly, increased confidence in our financial information will ultimately benefit the warfighter and our other customers.

Now that we have asserted, it is equally important to stay the course to keep our processes compliant and our internal controls robust. We will continue to focus on fixing our critical deficiencies to meet and sustain an audit.

ANDREW E. BUSCH
Lieutenant General, UASF
Director

MANAGEMENT'S DISCUSSION & ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

DLA reports to the Office of the Under Secretary of Defense (OUSD) for Acquisition, Technology and Logistics (AT&L) through the Deputy Under Secretary of Defense for Logistics and Materiel Readiness. DLA provides support around the clock and around the world to meet the needs of America's Armed Forces and other designated customers in times of peace, national emergency, and war. America's national defense strategy depends on DLA's support to feed, clothe, fuel, medicate and treat, and sustain U.S. and many allied nations' troops. DLA supports DoD objectives and missions with involvement in the full range of military operations from participation with multi-national forces engaged in large-scale combat operations, peacekeeping efforts, emergency support, and humanitarian assistance, to counter violent extremists and terrorist threats.

DLA sources and provides almost every consumable item used by American military forces worldwide. It manages nearly 5 million separate line items and disseminates logistics catalog information for land and maritime parts for weapon systems, fuel, and critical troop–support items involving food, clothing and textiles, medical, industrial hardware, and construction equipment and materiel. Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution; reutilization or disposal of surplus military assets; managing the defense national stockpile of strategic materiel; and providing catalogs and other logistics information and services, and document automation and production services.

DLA's Mission Vision and Values

Mission	Vision	Values
Provide effective and efficient global solutions to Warfighters and our other valued customers	Deliver the right solution on time, every time	Integrity, Resiliency, Diversity, Innovation, Accountability, Excellence

DLA employs 26,622 civilian personnel, 557 active duty military personnel, and 659 reserve personnel who operate a $40 billion global enterprise in 28 countries. They manage nearly 5 million items in 8 supply chains and support more than 1,700 weapon systems. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. Organizing as a single, integrated business enterprise enables DLA to focus on supporting the DoD's supply chains, enhancing the Armed Forces' readiness, and providing for the Warfighter during contingency operations.

Figure 1 shows DLA's organizational chart. Figure 2, which follows the descriptions of DLA's major organizations, shows the locations of the major DLA offices.

Figure 1

Six Primary-Level Field Activities (PLFAs) manage DLA's core functions. These include:

- **DLA Aviation,** headquartered in Richmond, Virginia, operates in 18 stateside locations, supporting more than 1,900 major weapon systems, with focused support to 143 major weapon systems. It is the U.S. military's integrated materiel manager for more than 1.1 million repair parts and operating supply items in support of all fixed- and rotor-wing aircraft, including spares for engines on fighters, bombers, transports, and helicopters; all airframe and landing gear parts; flight safety equipment; and propeller systems.

- **DLA Disposition Services,** headquartered in Battle Creek, Michigan, manages the disposal of excess property received from the Military Services. It has offices in 39 states, 14 foreign countries, and 2 U.S. territories; employs approximately 1,500 personnel; and manages operations that stretch across 11 time zones ranging from Europe to the Pacific regions. Disposition Services provides DoD with services for the disposal of property no longer needed for national defense, complies with legislative and regulatory requirements for the appropriate disposal of property, protects the public from dangerous defense items, and pursues maximum value for tax dollars.

- **DLA Distribution,** headquartered in New Cumberland, Pennsylvania, is responsible for the receipt, storage, issuance, packing, preservation, and transportation of more than 4 million items worldwide. It operates a network of 25 distribution centers around the world that provide timely and quality support to the Warfighters. Its Global Stock Position Plan ensures rapid distribution of critical military items. DLA Distribution’s overseas distribution operations are located in Germersheim, Germany, and Sigonella, Italy.

- **DLA Energy,** headquartered at Fort Belvoir, Virginia, serves as the Department’s executive agent for the bulk petroleum supply chain. Energy business includes sales of petroleum and aerospace fuels; arranging for petroleum support services; providing facility/equipment maintenance on fuel infrastructure; performing energy-related environmental assessment and cleanup; coordinating bulk petroleum transportation; and performing petroleum quality surveillance functions for electricity and natural gas for the Military Services as well as for the privatization of their utility systems.

- **DLA Land and Maritime,** headquartered in Columbus, Ohio, is responsible for maritime and land-based weapons systems under DLA’s materiel management approach. DLA Land and Maritime has a profound effect on national defense by supplying the Armed Forces with $3 billion worth of materiel annually. Land and Maritime, DLA’s first PLFA, has been called upon to supply every major military engagement since World War I.

- **DLA Troop Support,** headquartered in Philadelphia, Pennsylvania, is DLA’s lead center for troop and general support. It is responsible for managing food, clothing, medical supplies, construction, equipment, and general and industrial supplies worldwide. DLA Troop Support traces its roots back to 1800 with the construction of the Schuylkill Arsenal in Philadelphia, used as a warehouse for ammunition and other military supplies.

The J/D-Codes within DLA support DLA’s core functions. These include:

- **General Counsel** provides legal services and guidance to the DLA Director, senior leadership, and staff.

- **Inspector General** provides DLA leadership with facts and recommendations, through expert audit and investigative services to mitigate Agency risk, improve processes, ensure compliance, and optimize resources.

- **Installation Support** provides enterprise-wide agency policy, program, and worldwide operational support in environment; safety and occupational health; installation management; public safety; forms and policy management; and morale, welfare, and recreation for DLA.

- **Human Resources (J1)** provides the full range of human resources services, both policy and operational, for DLA's civilian and active duty military employees.

- **Logistics Operations (J3)** manages DLA's eight supply chains end-to-end, providing logistics and materiel process management policy, guidance, oversight, and monitoring of supply chain performance. It has primary responsibility for DLA's Research and Development program.

- **Strategic Plans and Policy (J5)** manages executive governance forums for the Director and manages the agency-wide deployment of Enterprise Process Management, Enterprise Risk and Controls, Continuous Process Improvement, Enterprise Organizational Alignment, and Enterprise Policy Management programs.

- **Information Operations (J6)**, as DLA's knowledge broker, provides comprehensive, best practice technological support to the DoD/DLA logistics community for information systems; efficient and economical computing; data management; electronic commerce; telecommunication services; and transaction services. The Director of Information Operations also serves as DLA's Chief Information Officer.

- **Acquisition (J7)**, as DLA's full life-cycle contracting process owner, plans, organizes, directs, and manages DLA's procurement and contract administration functions. The J7 Director, DLA Acquisition, serves as the DLA's Component Acquisition Executive and the Senior Procurement Executive, and provides oversight of DLA Strategic Materials.

- **DLA Finance (J8)** is led by the Agency's CFO, who is the single spokesperson on financial management matters with external organizations. DLA Finance designs, implements, and executes standard financial processes across the Agency; determines financial services' resource requirements and performance targets; and establishes financial core competency requirements.

- **Joint Reserve Force (J9)** supports DLA with trained, ready, and available reservists in all reserve components for contingency operations, peacetime contributory support, wartime surge support, and planning support.

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

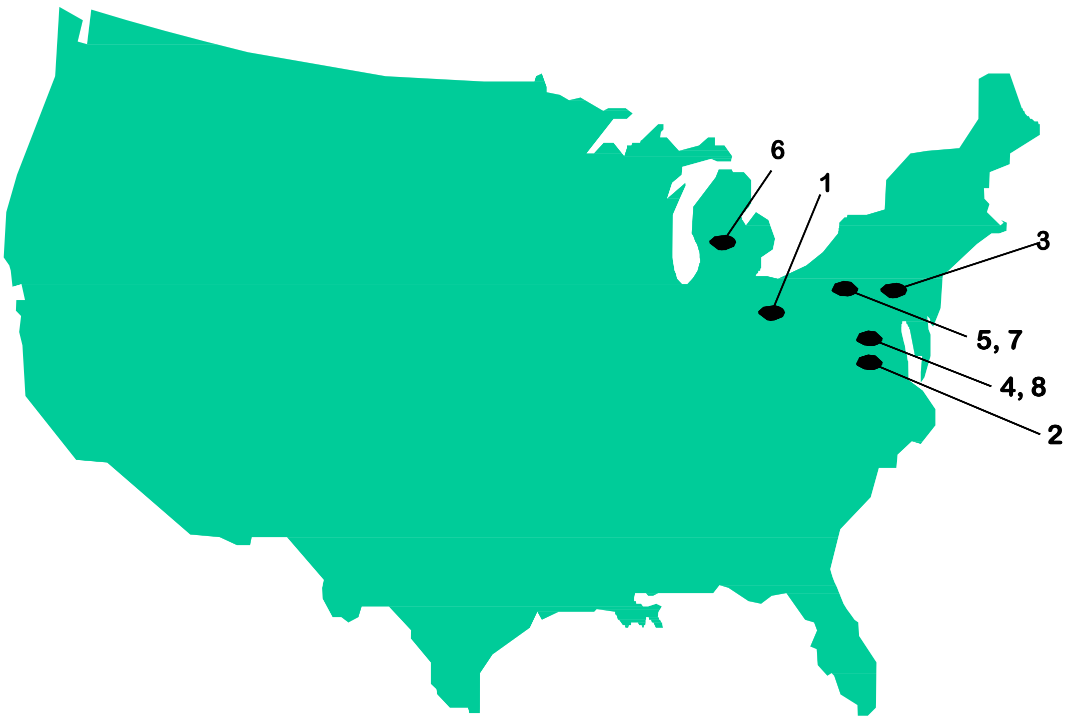

Figure 2

AGENCY GOALS AND OBJECTIVES

DLA is committed to achieving significant savings for its customers. In April 2015, the Director refreshed the Agency's strategy to concentrate on attaining these savings while continuing to identify new opportunities to reduce cost. DLA continues to provide world-class support to the Warfighter – delivering the right solution on time, every time – through pursuit of the five goals described in Figure 3: Agency Goals and Objectives, which are aligned with the approved strategic plan which was updated in FY 2015.

Figure 3

In the future, DLA must pursue initiatives that will improve Warfighter support with even greater fiscal responsibility. To achieve its strategic goals to support the Warfighter in an evolving environment, DLA aligned its efforts within business cycles to achieve Process Excellence. DLA developed the Enterprise Process Management Concept of Operations and leveraged the enterprise process governance construct by using the Supply Chain Integration Council.

DLA established new governance forums to report progress against its goals. Figure 4 depicts how the new structure will inform decision makers to enable them to optimize the use of DLA's resources.

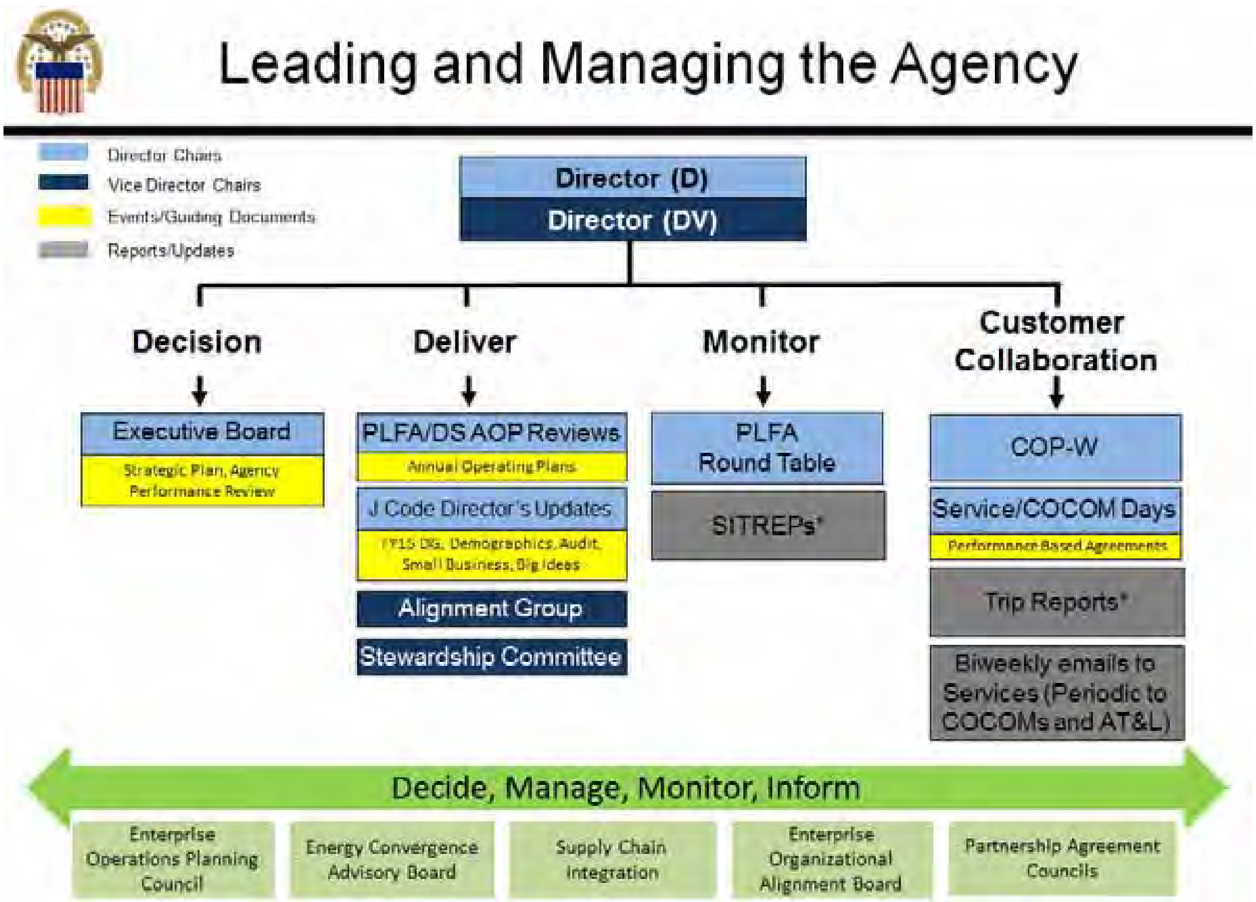

Figure 4

DLA refers to its strategy to reduce costs as "13 in 6." This Program Cost Reduction plan, which uses FY 2014 as the baseline, targets $13.1 billion in 6 years by FY 2019. Table 1 shows the reductions by operating expenses, costs of materials, and the overall reduction of $13.1 billion in costs by FY 2019. Details about the individual PLFAs and staff reductions are contained in the individual Agency Operating Plans (AOPs). Please contact DLA at http://www.dla.mil/AboutDLA/ContactUs.aspx to request copies of AOPs.

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

Table 1

ANALYSIS OF DLA'S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The following analysis provides an overview of DLA's funding mechanisms and the information presented in the financial statements and notes.

DLA's Funding Sources

DLA receives funding through its Defense-wide Working Capital Fund (DWWCF), General Fund (GF), and Transaction Fund (TF). DLA prepares financial statements and notes for its DWCF, GF and TF. The DWCF and GF statements are presented for FYs 2015 and 2014 in the Financial Section of this AFR.

Defense Working Capital Fund

In FY 2015, the Defense Working Capital Fund (DWCF) financed $40.3 billion, making it the DLA's primary source of financing for operations. Ninety-eight percent of the Agency's budget is resourced through this fund in which the agency's operating expenses are funded by revenues from customer purchases. This financing model identifies the cost to produce goods and services enabling the customer to use pricing and delivery information in its decision-making process. This visibility also supports DLA's performance measures that ensure DLA activities operate consistently within budget execution targets, address program requirements, and foster productivity improvements. Each fiscal year, DLA either retains or returns funds to the DWCF and other DoD appropriations.

Supply Management Chain

- The DWCF Supply Management Chain is DLA's largest business area and accounts for nearly all DLA assets, liabilities, revenues, and costs on its financial statements. It provides customer support through its management of Logistical Processes, Materiel Distribution, Disposition Services, and Document Services, as described below.

- Logistical Processes at each PLFA (DLA Energy, DLA Aviation, DLA Land and Maritime, DLA Troop Support, DLA Distribution and DLA Disposition Services) include centralized management of logistics catalog information, fuel, repair parts, operating supply items, food, medical supplies, construction materiel and equipment, clothing and textiles and industrial hardware. DLA Energy, as an integral part of Supply Management, provides comprehensive worldwide energy solutions by managing world-wide petroleum and aerospace energy supply chains as well as electricity, coal and natural gas commodities to support customers' fuel and energy requirements. DLA Energy is furthering its expansion into providing energy solutions to include alternative fuels, renewable energy, utility privatization and other installation energy conservation efforts.

- Materiel Distribution (DLA Distribution) provides a single, unified materiel distribution system for DoD. It receives, stores, and issues materiel worldwide. Distribution depots also provide refrigerated storage, cylinder refurbishment, tent repair, medical unit assemblies and kitting including assembly or disassembly.

- Disposition Services (DLA Disposition Services) supports and coordinates the disposal of excess and surplus property within DoD. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non-profit organizations or state and local governments. Property not reused, transferred, or donated is either sold to the public on a competitive basis or disposed of in an environmentally safe manner. A critical part of the DLA Disposition Services mission is to arrange for the worldwide disposal of hazardous waste in compliance with laws and regulations.

Document Services

Document Services provides printing, duplicating, and document automation services within DoD to include document workflow conversion, electronic storage and output, and distribution of hard copy and digital information.

General Fund

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

In FY 2015, DLA received just over $911.3 million in GF direct appropriations, which accounted for approximately 2 percent of DLA's total budget program. The GF includes five appropriations:

- **Operation and Maintenance (O&M)** received $382.4 million to fund Other Logistics Services, Other Logistics Programs, and Defense Enterprise Business Systems (DEBS).

- **Research, Development, Testing & Evaluation (RDT&E)** received $221.2 million to support Advanced Technology Development and Operational System Development.

- **Military Construction (MILCON)** received $296.3 million to fund major construction projects to replace, renovate, or build new facilities.

- **Procurement Defense-Wide (PDW)** received $10.5 million to fund the purchase of mission essential equipment, including passenger carrying motor vehicles, telecommunications equipment, and automated data processing equipment.

- **<u>Family Housing O&M</u>** received $943 thousand to support 140 units at the Distribution Depot in Susquehanna, Pennsylvania.

Chart 2 shows the distribution of GF funds in FY 2015.

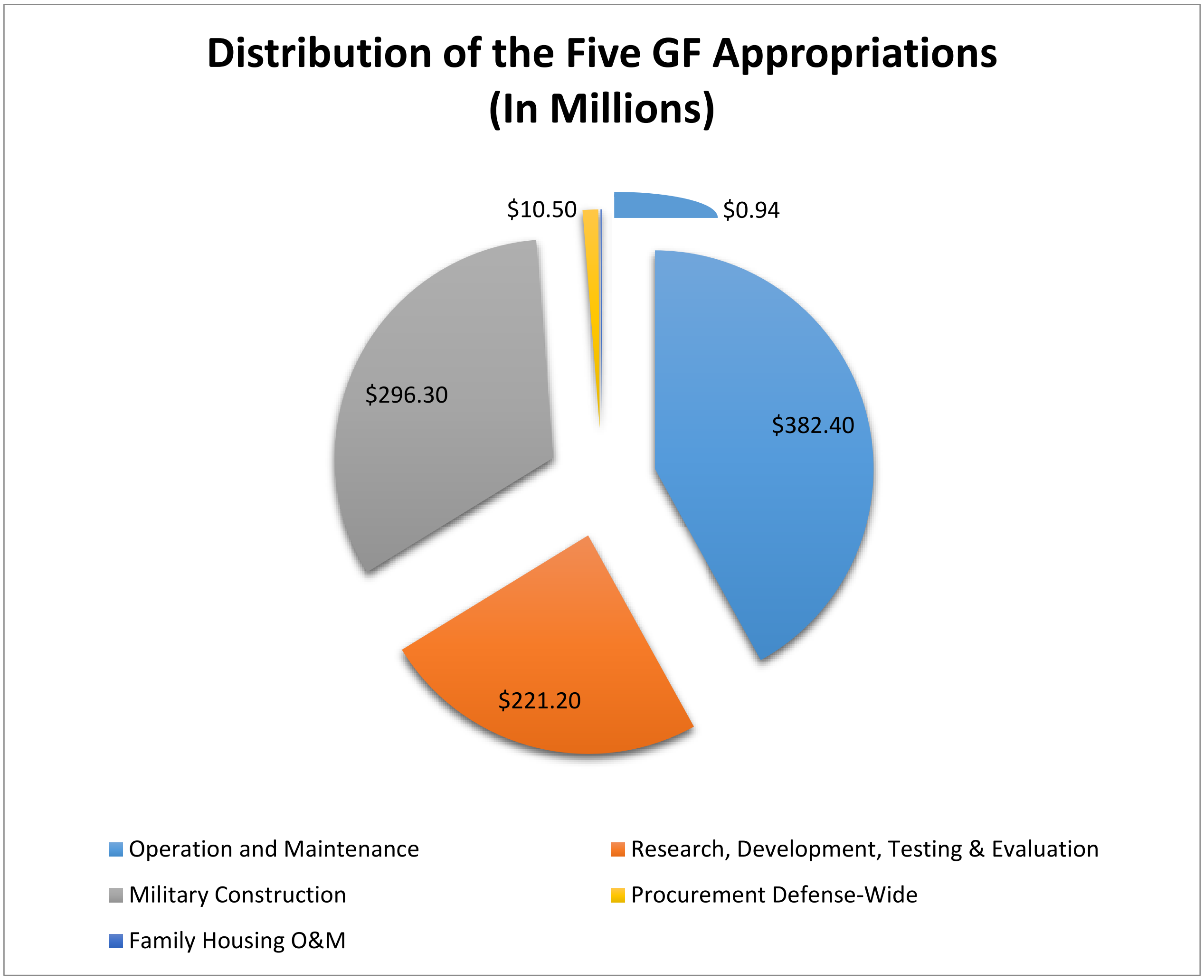

Chart 2

National Defense Stockpile Transaction Fund

The DLA Strategic Materials operates under the authority of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. §98, et seq.). The Stock Piling Act provides that strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence upon foreign sources of supply in times of national emergency. DLA Strategic Materials administers the acquisition, storage, management, and disposal of the stockpile and manages the Transaction Fund (TF).

Established under section 9 of the Stock Piling Act, the TF is used for acquisition of new materials for the National Defense Stockpile (NDS) and funds its operations including: storing material, rotating and upgrading materials, completing required reports for Congress, and environmental stewardship. As envisioned - by section 9 of the Stock Piling Act, moneys received from the sales of excess NDS inventory authorized for disposal are deposited into the TF to pay for acquisitions and NDS operations. In recent years, Congress has mandated that certain revenue generated from sales of certain commodities not revert to the TF, but be deposited to the General Fund of the Treasury, where it is utilized for purposes unrelated to the NDS.

Although the DLA manages the TF, it is not accounted for in the DLA financial statements but is embedded in the DoD Agency-wide financial statements.

DLA's Financial Statements

DLA, as an Other Defense Organization (ODO), is required to submit financial information for the DWCF and the GF separately to the OUSD (Comptroller) for inclusion in the Defense-wide financial statements. DLA historically has prepared separate sets of financial statements for the DWCF and the GF instead of a single set of consolidated financial statements. DLA also prepares separate financial statements for the DLA Supply Management Activity Group and for Document Services, which are both within the DWCF. The financial section of the AFR includes principal financial statements and notes to the financial statements for each of the following: DLA Supply Management, Document Services and the General Fund

Highlights of DLA's Financial Statements for FY 2015

DLA prepares the four basic financial statements for its DWCF and GF:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

The analysis of each statement describes both the DWCF and GF results.

Balance Sheet

The Balance Sheet presents, as of a specific time, amounts of future economic benefits owned or managed by DLA (assets), amounts owed by DLA (liabilities), and amounts that comprise the difference (net position).

DLA Working Capital Fund

Assets

Assets increased 16 percent from FY 2014 primarily due to the reporting of the Fund Balance with Treasury (FBwT) on the Balance Sheet in FY 2015 and an increase in Property, Plant, and Equipment (PP&E).

Fund Balance with Treasury

The DWCF's FBwT increased $3.3 billion (100 percent) due to a change in reporting requirements. Prior to 4th Quarter, FY 2015, DLA's FBwT was included at the Treasury Index (TI) 97 DWCF appropriations sub-numbered level, in accordance with the DoD Financial Management Regulation Volume 4, Chapter 2, which resulted in a reported balance of zero. Effective 4th Quarter, FY 2015, DLA received a waiver from the Deputy CFO Officer to not transfer current year collections and disbursements in support of DLA's Audit Readiness assertion for FY 2015.

Accounts Receivable

Accounts Receivable - Federal decreased $42.4 million due primarily to a decrease in the quarterly Weighted Average Standard Price (WA-SP) of petroleum. The Federal WA-SP decreased by $13.75/ (barrels) BBLS from $160.07/BBLS in 4th Quarter, FY 2014, to $146.31/BBLS in 4th Quarter, FY 2015.

Accounts Receivable – Nonfederal Accounts Receivable increased $502 million as reported primarily at DLA Energy. The primary drivers make up $340.4 million; $175.0 million in unposted Undistributed Collections due to ongoing systemic problems, and $165.4 million in increased sales to European forces.

Other Assets

Nonfederal Other Assets increased $6.8 million (18%) primarily in DLA Supply Chain Management due to contract financing payments ($9.5 million) for the procurement of DLA Aviation airframe structural components. This increase was offset by $1.1 million in DLA

Troop Support Construction and Equipment advance payments, along with the liquidation of advances to contractors who design, construct, and custom-build cargo nets and Navy Landing Craft Air Cushion systems for mobile military applications.

Inventory and Related Property

Total Inventory and Related Property decreased $1.0 billion (6%) primarily within DLA Energy inventories.

DLA Energy's inventory decreased $1.8 billion due to fuel valuation and $12.2 million in inventory quantity. Fuel valuation decreased by $32.19 per (BBL) from $128.41/BBL in 4th Quarter, FY 2014, to $96.23/BBL in 4th Quarter, FY 2015, as a result of reduced prices in the global petroleum market. Inventory quantity decreased 0.1 million barrels (MBBLS) from 56.04 MBBLS in 4th Quarter, FY 2014, to 55.94 MBBLS in 4th Quarter, FY 2015.

DLA Non-Energy Total Inventory increased $481.9 million. This increase was driven by a $304.0 million increase in demand for aviation spare parts and $161.8 million increased demand in electrical and electronic components, powered and non-powered valves, instruments and laboratory equipment, communications equipment, electrical wire and power distribution equipment, and fire and emergency services equipment.

General Property, Plant and Equipment

General PP&E increased $1.4 billion (86%) due to valuation adjustments for DLA Real Property assets.

Through validation of DLA's real property asset value, DLA revalued buildings, structures and tanks by $1.5 billion at DLA Energy (841.7 million) and DLA SCM (580.3 million). This adjustment was offset by a $345.0 million decrease (for 69 items) of General Equipment and Internal Use Software in unsubstantiated acquisition costs.

Liabilities

Liabilities Not Covered by Budgetary Resources

Total Liabilities Not Covered by Budgetary Resources increased $667.9 million (50%) due primarily to an increase in the Cost-to-Complete (CTC) related to DWCF prior year's CTC, Non-Base Realignment and Closure (BRAC) Corrective Actions sites CTC and the estimated asbestos clean-up costs for FY 2016 for DLA Energy Management. Refer to Note 14 in the Financial Section for additional information.

Nonfederal Accounts Payable

Nonfederal Accounts Payable increased $181.3 million (10%) primarily due to an increase in

DLA SCM for accelerated material purchases during the last half of FY 2015. These purchases were driven by increased demand for aviation spare parts and materiel supporting electrical and electronic components, powered and non-powered valves, instruments and laboratory equipment, communications equipment, electrical wire and power distribution equipment, and fire and emergency services equipment.

Environmental Liabilities

Environmental Liabilities increased $682.8 million (63%) driven by a $219.8 million increase in DLA Non-BRAC Corrective Action and CTC sites, and a $471.2 million increase in reporting the estimated asbestos clean-up costs for FY 2015.

The increase in DLA's Non-BRAC Closure CTC sites resulted from: 1) changes in the EBS inventory, including the addition of 1,057 tanks and 8 pipelines, 52 pipelines changed from aboveground to underground storage tank, 737 tanks updated from unknown or aboveground to underground storage tanks in the FY 2016 CTC, and updates to the year placed in service dates; 2) $136.3 million in program management support for DLA's restoration programs; and 3) $83.5 million for extension of Remedial Action Operation activities.

DLA's environmental liabilities increased $471.2 million related to the estimated asbestos clean-up costs. In prior years, DLA's method of estimating environmental liabilities did not include a separate identification of asbestos related liabilities. Beginning with 4th Quarter FY 2015, DLA revised its method and began reporting the asbestos liability using an industry asbestos clean-up cost standard in compliance with the approaches described in the Federal Accounting Standard Advisory Board (FASAB) Technical Release 10, Implementation Guidance on Asbestos Clean-up Costs Associated with Facilities and Installed Equipment, and FASAB Federal Financial Accounting and Auditing Technical Release No.2, Determining Probable and Reasonable Estimates for Environmental Liabilities in the Federal Government. Utilizing real property building records in EBS for 3,679 active DLA buildings at host and tenant installations, DLA and KPMG estimated asbestos costs of $471.2 million.

Commitments and Contingencies

The DLA has a reasonably possible minimum loss contingency of $14.0 million from 16 cases involving equal employment opportunity and personnel matters, environmental liabilities, and contract disputes, in which the Office of General Counsel (OGC) is a party. OGC uses DLA's Automated Workflow and Reporting System (AWARS) to project the outcome and value of open cases. The AWARS projects a minimum liability of approximately $14.0 million and a maximum liability of approximately $30 million. The DWCF does not have obligations related to cancelled appropriations for contractual commitments.

General Fund

Assets

Fund Balance with Treasury

FBWT increased $66.2 million (5%) primarily due to an increase in MILCON. MILCON increased $68.7 million due to higher disbursements in 4th Quarter, FY 2015, for the following projects: Replaced facilities, at DLA Distribution ($12.8 million); Replaced a Fuel Pipeline at Whidbey Island, Washington ($11.9 million); Replaced Fuel Storage and Distribution Facilities at the Joint Base in Charleston, South Carolina ($11.1 million); Replaced a Public Safety Center at Defense Distribution Center Depot in Tracy, California ($10.4 million); Replaced Fuel Storage Tanks and Pipelines in San Clemente, California ($9.6 million); Replaced a Hydrant Fuel System at Davis Monthan Air Force Base, Arizona ($8.2 million); and implemented Security Enhancements at the DLA Columbus, Ohio ($4.2 million) facility.

Other Assets

Nonfederal Other Assets increased $1.9 million (873%) for RDT&E contract financing payments in support of Advance Technology Development's Deployment and Distribution Enterprise Program research.

General Property, Plant & Equipment

General PP&E increased $165.9 million (18%).

DLA's Construction-in-Progress (CIP) account increased $118.7 million due to an increase in projects managed by the Navy Facilities Command (NAVFAC) ($37.4 million) and projects managed by the U.S. Army Corps of Engineer (USACE) ($83.9 million). These increases were offset by a decrease in Family Housing projects ($2.7 million) that were completed and transferred from the CIP account.

DLA's Internal Use Software (IUS) under Development also increased $45.2 million for IUS transferred from the Business Transformation Agency at the end of FY 2012 but was not recorded on DLA financial statements at the time of the transfer.

Liabilities

Total Liabilities Not Covered by Budgetary Resources

The Total Liabilities Not Covered by Budgetary Resources decreased $118.8 million (43%) due to changes to Environmental Liabilities.

Accounts Payable

Intragovernmental Accounts Payable decreased $12.5 million (59%) due primarily to decreases in O&M for the Price Comparability program ($10.9 million) and the Warstoppers program ($9.2 million).

Nonfederal Accounts Payable increased $32.7 million due primarily to increases in O&M Audit Readiness support efforts ($2.4 million) and Defense Enterprise System Sustainment ($2.0 million).

Environmental Liabilities

Environmental Liabilities decreased $125.3 million (43%). This decrease can be attributed primarily to the decrease in environmental corrective actions totaling $124.1 million due to the transfer of DLA's environmental site at San Joaquin Sharpe, California to the United States Army.

Statement of Net Cost (SNC)

The SNC shows DLA's net cost of operations, which is the difference between gross costs and earned revenue.

DLA Working Capital Fund

Net Cost of Operations increased $4.2 billion (225%) primarily from DLA Energy's revenue.

DLA Energy Public Revenue increased $3.3 billion from miscellaneous gains related to asset postings for Acquire to Retire (A2R) Tiger Team clean-up efforts. See WCF Balance Sheet, General Property, Plant & Equipment for more information.

General Fund

Net Cost of Operations decreased $225.4 million (36 %) due to budget reductions in FY 2015. Gross Costs decreased $137.3 million for O&M and $82.6 million for MILCON, offset by a $5.4 million decrease in Earned Revenue primarily for O&M and RDT&E.

Statement of Changes in Net Position (SCNP)

Net position is affected by changes to two components: Cumulative Results of Operations and Unexpended Appropriations. Cumulative Results of Operations includes budgetary and other financing sources.

DLA Working Capital Fund

Nonexchange revenue increased $12.9 million primarily related to DLA Energy's interest revenue ($5.3 million) and penalties and fines ($5.0 million).

Other Financing Sources, Other also increased $12.8 million due to DLA Energy's collections from other Federal entities for interest revenue, penalties and fines during FY 2015.

General Fund

Appropriations received decreased $109.8 million (11%) due to reduced budgetary authority for O&M ($61.2 million), MILCON ($30.0 million) and RDT&E ($11.6 million).

Statement of Budgetary Resources (SBR)

The SBR provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement derived predominantly from DLA's budgetary general ledger in accordance with budgetary accounting rules.

DLA Working Capital Fund

Appropriations received decreased $47.5 million (27%) due primarily to DLA Energy's decrease of $38.0 million in Fuel Transportation and Terminal Operations cost.

Recoveries of prior year unpaid obligations increased $4.5 billion (83%) due primarily to a decrease in fuel price for DLA Energy. The purchase price of barrels decreased $49.43/BBL from $140.94/BBL in 4th Quarter, FY 2014 to $91.51/BBL in 4th Quarter, FY 2015.

Outlays, Net (discretionary and mandatory) decreased $4.0 billion.

Outlays, Gross (discretionary and mandatory) decreased $3.4 billion due primarily to a decrease in DLA Energy ($4.9 billion), offset by an increase in DLA SCM ($1.5 billion). The decrease in DLA Energy was driven primarily by a decrease in purchase price per barrel. The increase in DLA SCM was driven primarily by an increase in customer demands/sales for the DLA Aviation, DLA Troop Support (C&E) and DLA Medical.

Reconciliation of Net Cost of Operations to Budget

Resources that finance the acquisition of assets decreased $3.1 billion (10%) due to a $49.43/BBL decrease in the cost of DLA Energy's purchases from 4th Quarter, FY 2014, to 4th Quarter, FY 2015.

General Fund

Recoveries of prior year unpaid obligations increased $15.5 million (38%) from 4th Quarter, FY 2014, attributable to O&M ($1.8 million) and RDT&E ($11.6 million). For the O&M appropriation, the increase was attributable to Contractual Services and benefits for former personnel. For RDT&E, the increase was attributable to the Industrial Preparedness Manufacturing Technology program and the Defense Agencies Initiative program.

Actual offsetting collections (discretionary and mandatory) increased $24.9 million (62%) from 4th Quarter, FY 2014, attributable to O&M ($13.6 million) and RDT&E ($11.3 million). For O&M, the increase was attributable to the Defense Travel Systems program. For RDT&E, the increase was attributable to Next Generation Resource Management Support and Defense Information Systems Security programs.

Analysis of DLA's Systems, Controls, and Legal Compliance

The objectives of a system of internal control are to provide reasonable assurance that an entity maintains effective and efficient operations, reliable financial reporting and financial information systems, and compliance with applicable laws and regulations.

The evaluation of internal controls extends to every responsibility and activity undertaken by DLA, and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits the Agency expects to derive. These benefits include reducing the risk of failure to achieve Agency objectives.

DLA evaluated the system of internal controls in accordance with the guidelines below. The results indicate that DLA, taken as a whole, complies with the requirement to provide reasonable assurance that the Agency achieved its internal control objectives. DLA conducted its assessment of the effectiveness of internal controls over nonfinancial operations, financial reporting, and financial systems' conformance in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A, "Internal Control over Financial Reporting," and Appendix D, "Compliance with the Federal Financial Management Improvement Act of 1996." Based on the results of this assessment, DLA was able to provide a qualified statement of assurance that the internal controls as of June 30, 2015, were operating effectively, with the exception of 26 material weaknesses under Section 2 and 4 non-conformances under Section 4.

DLA implemented a plan to align the Agency with the end-to-end Business Process Integration Framework and began business process reengineering, following DoD guidance. Through this reengineering effort, DLA will enable Process Excellence that supports, streamlines, and provides management with the toolset to provide reasonable assurance the control environment is operating effectively and efficiently.

Management Assurances

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires agencies to establish internal control and financial systems that provide reasonable assurance that the integrity of Federal programs and operations are protected. It also requires that the head of the agency provide an annual Statement of Assurance on whether the agency has met this requirement.

Internal Control over Nonfinancial Operations (ICONO)

DLA began FY 2015 with a review of its high-risk areas. The Agency determined its Enterprise Risk Profile through a top-down and bottom-up approach that included gathering details through the DLA Enterprise Risk Management Community of Practice and senior leadership engagement to determine the final profile. This provided a portfolio view of risk and vulnerabilities that was cross-walked to specific processes and test plan scopes used by the enterprise to provide detail on the mitigation strategy for each risk. Using the Government Accountability Office's Standards for Internal Control in the Federal Government (the "Green Book"), DLA cross-walked the control environment detail to the Committee of Sponsoring Organizations of the Treadway Commission framework and developed an information sheet that supported the Green Book's 17 Components of Internal Control. DLA evaluated 240 operational controls, with only 10 failures and 2 exceptions. The failures have plans of action and milestones for corrective action and monitoring.

Internal Control over Financial Reporting (ICOFR)

DLA provided a qualified Statement of Assurance that, as of June 30, 2015, its ICOFR was operating effectively, with the exception of the identified material weaknesses (that were corrected by the end of the fiscal year). DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner. As part of the Audit Readiness initiative, DLA evaluated the control environment for financial reporting and financial system compliance. During the FY, DLA identified and corrected 16 material weaknesses over financial reporting.

Details of DLA's material weaknesses, as well as status of corrections and estimated completion timeframes, are included in the complete Statement of Assurance, which can be found in Appendix 2 – DLA's Fiscal Year 2015 Annual Statement of Assurance. The Director's Statement of Assurance (without the Attachments) is presented on the next page.

As part of the Audit Readiness initiative, DLA also evaluated the control environment for financial system compliance. DLA identified four nonconformance areas for financial system compliance that were substantially compliant by the end of FY 2015 through corrective actions and remediation.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

JUL 14 2015

MEMORANDUM FOR SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY OF DEFENSE (ACQUISITION, TECHNOLOGY, AND LOGISTICS),

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2015

As Director of the Defense Logistics Agency (DLA), I recognize that the DLA is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A provides specific information on how the DLA conducted the assessment of operational internal controls, in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, and provides a summary of the significant accomplishments and actions taken to improve the DLA internal controls during the past year.

I am able to provide a qualified statement of assurance that operational internal controls of the DLA meet the objectives of FMFIA with the exception of ten unresolved material weaknesses described in Tab B-1. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. Other than these material weaknesses, the internal controls were operating effectively.

The DLA conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, *Internal Control Over Financial Reporting*. Tab A-1 provides specific information on how the DLA conducted this assessment. Based on the results of this assessment, the DLA is able to provide a qualified statement of assurance being reported that the internal controls over financial reporting as of June 30, 2015 were operating effectively with the exception of sixteen material weaknesses noted in Tab C.

The DLA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 provides specific information on how the DLA conducted this assessment. Based on the results of this assessment, the DLA is able to provide a qualified statement of assurance that the internal controls over the integrated financial management systems as of June 30, 2015 are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123 Appendix D with the exception of four nonconformances noted in Tab C.

My point of contact for this action is Billie Sue Goff, Chief, Risk and Controls Assessment Branch, DLA Strategic Plans and Policy, J5, (703)767-7736, Billie.Goff@dla.mil.

ANDREW E. BUSCH
Lieutenant General, USAF
Director

Attachments
As Stated

Financial Management Systems

DLA continues to pursue longer-term efforts designed to assess fully its business and financial operations and to improve integration of systems and processes that are compliant with Federal system and accounting requirements. Much of the effort this year was focused on the continued movement of functionality into DLA's Enterprise Business System (EBS) and Distribution Standard System.

Internal Control over Financial Systems (ICOFS)

Information Operations (J6) conducted an internal ICOFS review that provided qualified assurance (with deficiencies noted) that, as of June 30, 2015, DLA's ICOFS complied with FFMIA and OMB Circular No. A-123. Testing for DLA's systems uses the Federal Information Systems Controls Audit Manual (FISCAM) testing procedures at the enterprise level. DLA has completed testing for the IT General Control (ITGC) environment for DLA's 12 applicable systems:

- Defense Automatic Addressing System (DAAS)
- Defense Agencies Initiative (DAI)
- Defense Medical Logistics Standard Support – Wholesale (DMLSS-W)
- DoD Electronic Mall (DoD EMALL)
- Distribution Standard System (DSS)
- Defense Travel System (DTS)
- Employee Activity Guide for Labor Entry (EAGLE)
- Enterprise Business System (EBS)
- Electronic Document Access (EDA)
- Fuels Manager Defense (FMD)
- Invoice, Receipt Acceptance, and Property Transfer (iRAPT)
- Subsistence Total Order and Receipt Electronic System (STORES)

DLA Financial Systems

The testing status of the 12 relevant financial systems includes IT General Controls (ITGC) and Application Security (AS) Business Process Controls (BPC) determined to be in-scope based on FISCAM guidance. Deficiencies identified have been aligned to the appropriate Corrective Action Plans (CAP) issued for the Enterprise control areas.

Enterprise Control Area

The Enterprise control areas include Security Management (SM), Access Controls (AC), Configuration Management (CM), Segregation of Duties (SoD), and Contingency Planning (CP). There are 112 controls determined to be in-scope, which are tested for compliance across the Enterprise on an annual basis.

Current Testing Status – FFMIA Overview

FY15 Testing has been completed and all identified CAPs and associated deficiencies have been remediated based on the effective implementation of controls across the J6 organization.

DLA's established Financial Improvement Plans will address all identified weaknesses with monthly updates to the OUSD (Comptroller).

Legal Compliance

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that agencies' management provide an assessment of the organization's financial management systems compliance with Federal financial management systems requirements, standards promulgated by Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger (USSGL) at the transaction level. The DLA CFO's Statement of Assurance is presented on the next two pages.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
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JUN 16 2015

MEMORANDUM FOR CHAIR, DEPARTMENT OF DEFENSE SENIOR ASSESSMENT TEAM

SUBJECT: Internal Control over Financial Reporting and Financial Systems Statement of Assurance Report Requirements

The Defense Logistics Agency (DLA) conducted an internal review of the effectiveness of the DLA internal controls over financial reporting for the Financial Improvement Plan (FIP) assessable units as identified to Financial Improvement and Audit Readiness (FIAR), Office of the Under Secretary of Defense (Comptroller). The November 2014 FIAR Plan Status Report provides information pertaining to the DLA the schedule for the DLA FIP assessable units that are currently under evaluation.

The assessment was conducted in compliance with Office of Management and Budget Circular No. A-123, Appendix A, and the most recent version of the Department of Defense (DOD) FIAR Guidance, under the oversight of the DLA's Senior Assessment Team (SAT). The DLA SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, DLA is able to provide a qualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2015, were operating effectively with the exception of 16 material weaknesses noted below.

During the fiscal year we identified three additional material weaknesses related to Financial Reporting and Reconciliation and modified Plan-to-Stock lack of evidential matter to include rights and obligations. Other testing reaffirmed existing weaknesses, however we anticipate these material weaknesses will be remediated by the end of Fiscal Year 2015. The DLA closed four material weaknesses for Order-to-Cash, Plan-to-Stock and Procure-to-Pay. One Order-to-Cash weakness was closed due to implementation of Energy convergence. The other three weaknesses for Order-to-Cash, Procure-to-Pay and Plan-to-Stock, were closed because we implemented controls and developed SOPs and Job Aids.

The DLA Information Operations conducted an internal review of the effectiveness of the DLA internal controls over financial systems. DLA is able to provide qualified assurance (with deficiencies noted) that the identified financial systems have achieved substantial compliance with the Federal Financial Management Improvement Act and OMB Circular A-123, Appendix D. For Fiscal Year 2015, testing was completed on twelve DLA and DOD Enterprise Business Systems using the Federal Information Systems Controls Audit Manual (FISCAM) testing procedures at the Enterprise level. FISCAM testing at the system level is in progress.

The DLA also asserts that the material weaknesses and nonconformances identified and related corrective actions and remediation plans for bringing systems into substantial compliance are supported by the details included in the attachment.

Summary:
* New Corrective Action Plan. As we make substantial progress to the end of Fiscal Year 2015 and we receive the results of our internal control testing the dates above are subject to change.

Points of contact for this action are Ms. Monica Harrigan, (703) 767-7294, DSN 427-7294, or email: monica.harrigan@dla.mil and Mr. Waldemar Cuevas, (703) 767-7253, DSN 427-7253, or email: waldemar.cuevasgonzales@dla.mil.

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

Attachment:
As stated

MANAGEMENT INITIATIVES

Audit Readiness

Prior to February 2012, DLA organizations were mission-focused and concentrated on supporting the Warfighter; however, the end-to-end processes were not centrally managed nor focused on the elements necessary to pass and sustain an audit. The establishment in March 2012 of Audit Readiness Program Management Office, led by a member of the Senior Executive Service, demonstrated Leadership's commitment to audit readiness and focused on Process Excellence to support an audit and reduce overall risks to the agency, thereby providing better support to the Warfighter.

The OUSD (Comptroller) Financial Improvement and Audit Readiness (FIAR) Directorate manages the DoD FIAR Plan and develops and issues the FIAR Guidance that defines DoD's goals, priorities, strategy, and methodology to achieve audit readiness. The guidance describes the roles and responsibilities of reporting entities and service providers and the processes they should follow to achieve audit readiness. This guidance is updated periodically to remain current with DoD's priorities and align with all applicable Federal and Departmental financial management requirements.

DLA established a rigorous enterprise audit readiness strategy, program infrastructure, and governance structure that were managed centrally with full Agency support and clear accountabilities at the senior level. The governance included a Stewardship Committee, centralized Program Management Team, Stewardship Working Group, Business Cycle Teams led by senior executives at DLA Headquarters known as Enterprise Business Cycle Owners (EBCOs), Field Command Teams, and Program Management Teams. During FY 2015, the DLA audit readiness team worked towards the Director's commitment to assert to DLA's financial statements for all funds on September 30, 2015.

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

The Business Cycle and Field Command Teams work with the EBCOs and Field Commanders to help ensure execution of their respective team's audit readiness responsibilities, and identify and resolve impediments to the Agency's auditability at each Stewardship Working Group meeting. This group provides the Program Management Team a forum to communicate program guidance and assignment details to the Business Cycle and Field Command Team leads in a scheduled manner; advise on potential resolutions and strategize on implementation approaches to agreed-upon resolutions; and foster open audit readiness-related communication among the various teams.

DLA designed a sustainment plan to ensure it has the skills and/or capabilities to train and transition the DLA workforce to prepare for audit and sustain these new practices into the future. DLA has the necessary processes, controls, data, system, and human capital capabilities in place (including audit infrastructure, manual and system internal control testing protocols, and management oversight) to sustain audit readiness solutions within the business processes throughout the Agency and with the Agency's service providers.

DLA's Audit Readiness program identified and established processes and controls to withstand an audit for full enterprise-wide auditability and to integrate financial management with DLA's programs and operations. The readiness of DLA's key systems, particularly EBS, is a critical element of DLA achieving audit success, given the size, complexity, volume of transactions, geographic dispersion of its operations, and highly automated business processes with its customers.

J6 focused on all systems affecting auditability for DLA-owned systems and DLA-managed systems for customers and/or Military Services for which DLA plays a service provider/receiver role. Certain system components are operated by DLA on behalf of other entities and DLA has demonstrated that it has adequately designed controls that are operating effectively.

DLA continues to demonstrate defendable and incremental audit cycle success measures through each assertion. As each business area drives towards assertion, DLA continues to build the necessary capabilities by applying lessons learned and directly leveraging audit expertise into every area of the strategy implementation. DLA is transferring essential knowledge and providing hands-on employee training to quickly remediate gaps in the organization's functions and procedures.

Reorganization of the Finance Office

DLA Finance (J8) continues to make improvements to its organization to support financial transaction processing and financial reporting in compliance with Federal laws and regulations. On July 20, 2015, the DLA Deputy Director approved the J8 General Order, which defines the J8 restructuring and realignment decisions. Realignment of staff was effective on October 4, 2015, officially putting in place the new Accounting Organization to improve accounting operations.

The organizational restructuring provides J8 with additional accounting organizational divisions, branches, and functions necessary to achieve its objectives. These divisions and branches include Human Capital Office support, Financial Policy Compliance, Audit Response Infrastructure, and the Center of Financial Excellence, which includes five Accounting Cycle Offices aligned to the end-to-end business cycles. In addition, the J8 management team is standardizing processes and position descriptions across J8 and its accounting offices to solidify specific roles and responsibilities and strengthen its internal controls.

LIMITATIONS TO THE FINANCIAL STATEMENTS

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

While the statements were prepared from DLA's books and records in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

To the extent possible, the financial statements were prepared in accordance with Federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards differs from the auditor's application of the standards. In those situations, the DoD has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent. The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

DLA and the Defense Finance and Accounting Service (DFAS) prepared the FY 2015 DLA financial statements from available automated finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes. Due to system deficiencies, there are limitations in collecting the data needed to prepare financial statements that comply with Federal standards. To prepare the financial statements, DFAS made numerous adjustments during the compilation process in an attempt to overcome these deficiencies.

DLA has several corrective actions underway that are intended to improve the underlying systems, business processes, and internal controls.

IMPROPER PAYMENTS INFORMATION ACT REPORT

Section 2(h) of the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law 111-204) requires agencies to conduct recovery audits for each program and activity that expends $1.0 million or more annually if conducting such audits would be cost-effective. DLA employed a contractor to perform payment recapture audits. Since FY 2005, the payment recapture audit contractor has reviewed $76.8 billion in payments for contracts procuring inventory for the Supply Chain Management Activity Group. As of the end of FY 2015, $2.5 million remains identified for recapture. Root causes for the $2.5 million in improper payments fell into the following categories: overpayments ($1.0 million or 42%), deductions not taken for lump sum decreases due to contract modification ($772.7 thousand or 31%), payments made for merchandise that had been returned to the contractor ($435.5 thousand or 18%), erroneous payments ($112.2 thousand or 5%), and duplicate payment of invoices ($100.0 thousand or 4%). As of September 30, 2015, 9 percent, or $300,000 of the improper payments are pending recovery. The Department's progress in asserting to audit readiness in FY 2015 further reinforces public confidence in the Improper Payments program and in our stewardship of taxpayer dollars.

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

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

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

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER OCTOBER 2015

The DLA mission is enabled by innovative financial management and sound financial stewardship.

In accordance with the National Defense Authorization Act for Fiscal Year 2010, the Office of the Under Secretary of Defense (Comptroller) developed the Financial Improvement and Audit Readiness guidance for reporting entities and service providers working toward the goal of audit readiness. This guidance defines the DoD goals, priorities, strategy, and methodology to achieve audit readiness. On September 30, 2015, in accordance with this guidance, DLA officially asserted that DLA's Transaction Fund and Defense Working Capital funds were ready for full financial statement audit and the DLA General Funds were ready for an examination of its Statement of Budgetary Activity, Statement of Net Cost, and Fiscal Year 2016 Schedule of Collections and Disbursements.

As DLA transitions from preparing for audit to audit sustainment, there are still some critical deficiencies that require more sustainable solutions. We are focused on mitigating or eliminating these deficiencies before the Independent Public Accounting firm conduct their audit in Calendar Year 2016.

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

DLA WORKING CAPITAL FUND FINANCIAL STATEMENTS AND FOOTNOTES

Department of Defense **Unuaudited**

Defense Logistics Agency Working Capital Fund

Consolidated Balance Sheet

As of September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 3,296,583	$ 0
Accounts Receivable (Note 5)	1,345,687	1,642,639
Other Assets (Note 6)	124,925	124,925
Total Intragovernmental Assets	$ 4,767,195	$ 1,767,564
Accounts Receivable, Net (Note 5)	1,307,664	993,082
Inventory and Related Property, Net (Note 9)	17,590,917	18,628,842
General Property, Plant and Equipment, Net (Note 10)	3,055,654	1,639,763
Other Assets (Note 6)	44,125	37,286
TOTAL ASSETS	$ 26,765,555	$ 23,066,537
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 117,934	$ 123,145
Other Liabilities (Note 15 & 16)	387,156	374,915
Total Intragovernmental Liabilities	$ 505,090	$ 498,060
Accounts Payable (Note 12)	$ 2,085,234	$ 1,903,952
Military Retirement and Other Federal Employment Benefits (Note 17)	226,082	247,765
Environmental and Disposal Liabilities (Note 14)	1,758,848	1,076,030
Other Liabilities (Note 15 and Note 16)	251,224	247,918
TOTAL LIABILITIES	$ 4,826,478	$ 3,973,725
NET POSITION		
Cumulative Results of Operations – Other Funds	$ 21,939,077	$ 19,092,812
TOTAL NET POSITION	$ 21,939,077	$ 19,092,812
TOTAL LIABILITIES AND NET POSITION	$ 26,765,555	$ 23,066,537

The accompanying notes are an integral part of

Department of Defense **Unaudited**

Defense Logistics Agency Working Capital Fund

Consolidated Statement of Net Cost

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
PROGRAM COSTS		
Gross Costs	$ 48,710,993	$ 47,914,882
(Less: Earned Revenue)	(51,036,388)	(46,048,154)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(2,325,395)	1,866,728
Net Program Costs Including Assumption Changes	(2,325,395)	1,866,728
NET COST OF OPERATIONS	$(2,325,395)	$1,866,728

The accompanying notes are an integral part of these statements.

Department of Defense **Unaudited**

Defense Logistics Agency Working Capital Fund

Consolidated Statement of Changes in Net Position

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 19,092,812	$ 19,209,867
Beginning balances, as adjusted (Includes Funds from Dedicated Collections – See Note 23)	19,092,812	19,209,867
Budgetary Financing Sources:		
Appropriations used	130,643	178,106
Nonexchange revenue	12,658	(195)
Transfers-in/out without reimbursement	(1,205,663)	(623,425)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	1,446,811	2,020,940
Imputed financing from costs absorbed by others	149,230	174,248
Other (+/-)	(12,809)	(1)
Total Financing Sources (Includes Funds from Dedicated Collections – See Note 23)	$ 520,870	$ 1,749,673
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections – See Note 23)	(2,325,395)	1,866,728
Net Change	2,846,265	(117,055)
Cumulative Results of Operations (Includes Funds Dedicated Collections – See Note 23)	21,939,077	19,092,812
Collections – See Note 23)		
Appropriations transferred-in/out	130,643	178,106
Appropriations used	(130,643)	(178,106)
Dedicated Collections – See Note 23)		
Dedicated Collections – See Note 23)		
Net Position	$ 21,939,077	$ 19,092,812

The accompanying notes are an integral part of these statements.

Department of Defense **Unaudited**

Defense Logistics Agency Working Capital Fund

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

		2015 Combined	2014 Combined
Budgetary Resources:			
Unobligated balance brought forward, Oct 1	$	122,742	116,155
Unobligated balance brought forward, Oct 1, as adjusted,		122,742	116,155
Recoveries of prior year unpaid obligations		9,848,892	5,370,664
Other changes in unobligated balance (+ or -)		(11,016,524)	(5,680,758)
Unobligated balance from prior year budget authority,		(1,044,890)	(193,939)
Appropriations (discretionary and mandatory)		130,643	178,106
Contract Authority (discretionary and mandatory)		39,846,123	43,341,472
Spending Authority from offsetting collections		1,491,468	614,204
Total Budgetary Resources		40,423,344	43,939,843
Status of Budgetary Resources:			
Obligations Incurred		40,289,405	43,817,101
Unobligated balance, end of year			
Apportioned		133,939	122,742
Total unobligated balance, end of year		133,939	122,742
Total Budgetary Resources	$	40,423,344	43,939,843
Change in Obligated Balance:			
Unpaid obligations:			
Unpaid obligations, brought forward, Oct 1		22,552,928	22,413,114
Obligations incurred		40,289,405	43,817,101
Outlays (gross) (-)		(34,952,245)	(38,306,623)
Recoveries of prior year unpaid obligations (-)		(9,848,892)	(5,370,664)
Unpaid obligations, end of year		18,041,196	22,552,928
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, Oct 1		(9,373,994)	(10,230,326)
Change in uncollected pymts, Fed sources (+ or -)		994,143	856,332
Uncollected pymts, Fed sources, end of year (-)		(8,379,851)	(9,373,994)
Obligated balance, start of year (+ or -)		13,178,934	12,182,788
Obligated balance, end of year (+ or -)	$	9,661,345	13,178,934

The accompanying notes are an integral part of these statements.

Department of Defense **Unaudited**

Defense Logistics Agency Working Capital Fund

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 41,468,234	$ 44,133,782
Actual offsetting collections (discretionary and mandatory) (-)	(38,021,432)	(37,340,822)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	994,143	856,332
Budget Authority, net (discretionary and mandatory)	4,440,945	7,649,292
Outlays, gross (discretionary and mandatory)	34,952,245	38,306,623
Actual offsetting collections (discretionary and mandatory) (-)	(38,021,432)	(37,340,822)
Outlays, net (discretionary and mandatory)	(3,069,187)	965,801
Agency Outlays, net (discretionary and mandatory)	$ (3,069,187)	$ 965,801

The accompanying notes are an integral part of these statements.

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

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

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

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

1.B. Mission of the Reporting Entity

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

The DLA provides supply support, technical/logistics services, and quality support to all branches of the Military and other non-DoD customers. The DLA activity groups executing these funds include: DLA Supply Chain, DLA Energy, and Document Services. The Supply Chain includes DLA Land and Maritime, DLA Aviation, DLA Troop Support, DLA Distribution, and DLA Disposition Services. The operational activities of the National Defense

Stockpile are delegated to the DLA Director. DLA Strategic Materials was established as a field activity to manage the operations of the NDS program, including the acquisition, storage, management, and disposal of materials.

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

1.C. Appropriations and Funds

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

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

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

1.D. Basis of Accounting

The DLA is unable to meet all full accrual accounting requirements. This is primarily because many of DLA's financial and nonfinancial feeder systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis were designed to record information on a budgetary basis.

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

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

1.E. Revenues and Other Financing Sources

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

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

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

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

1.H. Transactions with Foreign Governments and International Organizations

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

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

1.I. Funds with the U.S. Treasury

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

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S.

Treasury records these transactions to the applicable FBWT account. On a monthly basis, DLA's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by Treasury.

1.J. Cash and Other Monetary Assets

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

1.K. Accounts Receivable

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

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

1.L. Direct Loans and Loan Guarantees

Not Applicable to DLA WCF.

1.M. Inventories and Related Property

The DLA values its entire resale inventory using the moving average cost method. The DLA manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment.

Items commonly used in and available from the commercial sector are not managed in DLA's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The DLA holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale".

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by DLA. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The DLA often relies on weapon systems and machinery no longer in production. As a result, DLA supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

1.N. Investments in U.S. Treasury Securities

Not Applicable to DLA WCF.

1.O. General Property, Plant and Equipment

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

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

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

When it is in the best interest of the government, DLA provides government property to contractors to complete contract work. The DLA either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on DLA's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires DLA maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with Federal accounting standards. The DLA has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

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

1.Q. Leases

Lease payments for the rental of equipment and operating assets are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, DLA records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The DLA records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The DLA, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. As of October 1, 2015, DLA does not have any recorded leases on its books.

1.R. Other Assets

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

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

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

1.S. Contingencies and Other Liabilities

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

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

Other liabilities also arise as a result of anticipated disposal costs for DLA's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition DoD recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.T. Accrued Leave

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

1.U. Net Position

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

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

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

1.V. Treaties for Use of Foreign Bases

Not Applicable to DLA WCF.

1.W. Undistributed Disbursements and Collections

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

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

1.X. Fiduciary Activities

Not Applicable to DLA WCF.

1.Y. Military Retirement and Other Federal Employment Benefits

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

1.Z. Significant Events

In FY 2015, DLA conducted an end-to-end validation of Real Property (RP) assets. During this effort, DLA discovered capital assets that required correction to their acquisition value and posted accumulated depreciation from prior fiscal years. DLA recognized that there was insufficient evidential matter in many cases to properly support valuation or the placed-in-service date. DLA decided to cease efforts to collect additional documentation for assets beyond their useful life, as defined in the DoD Financial Management Regulation (FMR). All DLA RP assets exceeding the FMR definition for useful life were considered fully depreciated and no further efforts to document the acquisition value was invested.

Note 2. Nonentity Assets

As of September 30	2015	2014
(Amounts in thousands)		
Nonfederal Assets		
Accounts Receivable	$ 343,711	$ 336,816
Total Nonfederal Assets	343,711	336,816
Total Nonentity Assets	343,711	336,816
Total Entity Assets	26,421,844	22,729,721
Total Assets	$ 26,765,555	$ 23,066,537

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

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

Note 3. Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2015	2014
Fund Balances		
Revolving Funds	$ 3,296,583	$ 0
Total Fund Balances	$ 3,296,583	$ 0
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 3,296,583	$ 0
Fund Balance per Agency	3,296,583	0
Reconciling Amount	$ 0	$ 0

The DWCF's FBwT increased 3.3 billion (100 percent) due to a change in reporting requirements. Prior to 4th Quarter, FY 2015, DLA's FBwT was included at the Treasury Index (TI) 97 DWCF appropriations sub-numbered level, in accordance with the DoD FMR Volume 4, Chapter 2, which resulted in a reported balance of zero. Effective 4th Quarter, FY 2015, DLA received a waiver from the Deputy Chief Financial Officer to not transfer current year collections and disbursements in support of DLA's Audit Readiness assertion for FY 2015.

Status of Fund Balance with Treasury

As of September 30	2015	2014
(Amounts in thousands)		
Unobligated Balance		
Available	$ 133,939	$ 122,742
Obligated Balance not yet Disbursed	$ 18,041,196	$ 22,552,927
NonFBWT Budgetary Accounts	$ (14,878,552)	$ (21,373,254)
Total	$ 3,296,583	$ 1,302,415

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

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

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

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

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

Note 4.	Investments and Related Interest

This note is not applicable to the DLA WCF.

Note 5.	Accounts Receivable

As of September 30	2015					
	Gross Amount Due		Allowance For Estimated Uncollectibles		Accounts Receivable, Net	
ounts in thousands)						
Intragovernmental Receivables	$	1,345,687		N/A	$	1,345,687
Nonfederal Receivables (From the Public)	$	1,410,477	$	(102,813)	$	1,307,664
Total Accounts Receivable	$	2,756,164	$	(102,813)	$	2,653,351

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

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

Note 6.	Other Assets

As of September 30		2015		2014
(Amounts in thousands)				
Intragovernmental Other Assets				
Other Assets	$	124,925	$	124,925
Total Intragovernmental Other Assets	$	124,925	$	124,925
Nonfederal Other Assets				
Outstanding Contract Financing Payments	$	44,082	$	37,240
Advances and Prepayments		43		46
Total Nonfederal Other Assets	$	44,125	$	37,286
Total Other Assets	$	169,050	$	162,211

Composition of Other Lines

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

Contract Financing Payments

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

Outstanding Contract Financing Payments includes $39 million in contract financing payments and $5.1 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, Other Liabilities, for further information.

Note 7. Cash and Other Monetary Assets

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

Note 8. Direct Loan and Loan Guarantees

This is not applicable to the DLA Working Capital Fund.

Note 9. Inventory and Related Property

As of September 30	2015	2014
(Amounts in thousands)		
Inventory, Net	$ 17,590,917	$ 18,628,842
Total	$ 17,590,917	$ 18,628,842

Restrictions

The DLA Supply Chain Management (SCM) inventory, net total has restrictions of $82.9 million related to inventory in litigation. Inventory in litigation (condition code L) is materiel held pending litigation or negotiation with contractors or common carriers, and remains in condition code L until negotiated or settled.

General Composition of Inventory

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

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

DLA Energy petroleum inventories are comprised of commercial and military specification products. As of 4th Quarter, FY 2015, DLA reported $17.6 billion inventory, categorized as inventory held for sale, inventory held in reserve for future sale, and inventory held for repair, using moving average cost; and $451.9 million inventory categorized as excess, obsolete inventory at net realizable cost. Inventory balances by category are as follows:

Inventory Balances by Category:	**Totals**
Inventory Held for Current Sale	$16,882,873,085
Excess, Obsolete, and Unserviceable Inventory	$451,943,095
Allowance: Inventory Held for Repair	($2,181,534)
Inventory Held in Reserve (Future Sale)	$149,206,073
Inventory Held for Repair	$109,076,706
Total Inventory:	**$17,590,917,425**

Significant accounting adjustments have been made to the DLA's mission critical assets as a result of the Department's ongoing audit readiness efforts. These accounting adjustments were recognized in current year gain/loss accounts when sufficient supporting data was not available.

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

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

Minimum Inventory Levels

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

DLA Energy petroleum are stocked to support both peacetime and wartime operational requirements. The total FY 2015 petroleum inventory objective was 56 million barrels of which 34.5 million barrels were war reserve material.

Inventory, Net

As of September 30	2015			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
Inventory Categories				
Available and Purchased for Resale	$ 17,032,079	$ 0	17,032,079	MAC,FIFO,LAC
Held for Repair	109,077	(2,182)	106,895	LAC,MAC
Excess, Obsolete, and Unserviceable	451,943	0	451,943	NRV
Total	$ 17,593,099	$ (2,182)	17,590,917	

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

Legend for Valuation Methods:

LAC = Latest Acquisition Cost	NRV = Net Realizable Value	MAC = Moving Average Cost
SP = Standard Price	LCM = Lower of Cost or Market	
AC = Actual Cost	FIFO = First-In-First-Out	

Note 10. General PP&E, Net

As of September 30	2015				
(Amounts in thousands)	Depreciation Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 Or 40	4,509,234	(2,422,885)	2,086,349
Software	S/L	2-5 Or 10	1,406,362	(1,045,246)	361,116
General Equipment	S/L	Various	678,540	(470,666)	207,874
Assets Under Capital Lease	S/L	lease term	0	0	0
Construction-in-Progress	N/A	N/A	400,315	N/A	400,315
Total General PP&E			6,994,451	(3,938,797)	$ 3,055,654

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

Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

During FY 2014 data cleansing efforts, DLA discovered assets/real property which were not recorded in the general ledger or did not reflect the accurate asset value in the Defense Working Capital Fund. At that time, for accountability purposes, DLA recorded the value of these assets at $1.49 each. In FY 2015, DLA initiated an extensive review of property records to substantiate, validate and correct the value of assets posted in the general ledger. Although much progress has been made throughout FY 2015, validation efforts will continue into FY 2016. The expected project completion date is no later than June FY 2016.

Restrictions

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

Heritage Assets and Stewardship Land

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

The DLA has four heritage assets that include: (1) an early nineteenth century plantation house which the Defense Supply Center Richmond (DSCR) operates and serves as the DSCR Officer's Club and is listed in the National Register, (2) a Native American monument which was jointly established by DSCR and a local Native American organization to honor Native American culture, and (3/4) two cemeteries located at DSCR which DLA has administrative and curatorial responsibilities. The Bellwood Club, Gregory Cemetery and African American Cemetery were acquired as part of land purchase for the base. The Handicapped ramp for the Bellwood Club, Improvements to the African American Cemetery, Improvements to the Gregory Cemetery and Native American Memorial were acquired by construction.

Refer to the Table below for additional information.

Heritage Assests As of September 30, 2015

Asset	Depreciation/ Amortization Method	Acquisition Date	Life Years	Acquisition Value	Accum Depreciation/ Amortization	Net Book Value
Bellwood Club	S/L	July 1, 1840	40	$ 482,200	$482,200	$ -
Capital Improvements						
Construct Handicap Ramp	S/L	May 23, 1995	20	$ 212,818	$212,818	$ -
Net Bellwood Club				$ 695,018	$695,018	
Gregory Family Cemetery	N/A	July 1, 1993		$28,000	-$ 0	$ 28,000
African American Cemetery	N/A	July 1, 2000		$28,772	-$ 0	$ 28,772
Native American Monument	N/A	July 1, 2001		$ 22,274	-$ 0	$ 22,274
Net Heritage Assets				$ 774,064	$ 695,018	$ 79,046

Current Annual Depreciation on Bellwood Club Capital Improvements

	Years	Acq Costs	Annual	Monthly
Handicapped Ramps	20	$212,818	$10,640	$887

Assets Under Capital Lease

As of September 30		2015		2014
(Amounts in thousands)				
Entity as Lessee, Assets Under Capital Lease				
Equipment		0		179
Accumulated Amortization		0		(179)
Total Capital Leases	$	0	$	0

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2015		2014
(Amounts in thousands)				
Intragovernmental Liabilities				
Other	$	20,593	$	21,002
Total Intragovernmental Liabilities	$	20,593	$	21,002
Nonfederal Liabilities				
Military Retirement and Other Federal Employment Benefits	$	226,082	$	247,764
Environmental and Disposal Liabilities		1,724,420		1,033,424
Other Liabilities		33,531		34,487
Total Nonfederal Liabilities	$	1,984,033	$	1,315,675
Total Liabilities Not Covered by Budgetary Resources	$	2,004,626	$	1,336,677
Total Liabilities Covered by Budgetary Resources	$	2,821,852	$	2,637,048
Total Liabilities	$	4,826,478	$	3,973,725

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

Composition of Other Lines

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

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

Nonfederal Liabilities: Other generally consists of contingent legal liabilities that comprise of 16 cases within DLA Distribution (5), DLA Troop Support (4), DLA Aviation (4), DLA HQ (1), Document Services (1), and DLA Land & Maritime (1) pertaining to a case with the Armed Services Board of Contract Appeals, Equal Employment Opportunity Commission and Merit System Protection Board.

Military Retirement and Other Federal Employment Benefits:

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of employee actuarial FECA liabilities estimated to be payable in a future fiscal year in the amount of $226.1 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable

As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 117,934	$ N/A	$ 117,934
Nonfederal Payables (to the Public)	2,085,234	0	2,085,234
Total	$ 2,203,168	$ 0	$ 2,203,168

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

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

Note 13.	Debt

This note is not applicable to the DLA WCF.

Note 14.	Environmental and Disposal Liabilities

As of September 30	2015	2014
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Environmental Corrective Action	271,017	1,073,619
Environmental Closure Requirements	1,016,625	2,411
Environmental Response at Operational Ranges	0	0
Asbestos	471,206	0
Total Environmental Liabilities	$ 1,758,848	$ 1,076,030

The DLA's Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the Defense Working Capital Fund environmental restoration programs, and (2) anticipated future costs necessary to complete the environmental restoration requirements at DLA's Energy and Non-Energy environmental sites. In FY 2015, DLA utilized Version 11.2 of the Remedial Action Cost Engineering and Requirements (RACER) software to generate the FY 2016 Cost to Complete (CTC) estimates of anticipated future costs. Cost estimates related to DLA Energy were generated for 4618 sites; 4544 sites associated with closure costs, and 74 sites are corrective action costs. Cost estimates Non-Energy related were generated for 104 sites associated with closure costs. Additionally, DLA calculated the future cost associated with asbestos EL utilizing the EBS real property records and industry asbestos clean-up costs standards in compliance with the Department of Defense (DoD) Strategy for Environmental & Disposal Liabilities Audit Readiness (September 2015). Costs estimates related to DLA asbestos clean-up were generated by applying an asbestos removal/remediation cost factor of $4.41 per gross square foot (GSF) to an active building population of 3,619 building with a total of 106,849,489.4 GSF.

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

Applicable Laws and Regulations for Cleanup Requirements

The DLA is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. DLA is required to comply with the following laws and regulations where applicable: The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); the Superfund Amendments and Reauthorization Act (SARA); the Resource Conservation and

Recovery Act (RCRA); the Clean Water Act; and other applicable Federal, State, interstate and local laws and regulations. Required cleanup may at times extend beyond Installation boundaries onto privately owned property, and onto sites where DLA is named as a potentially responsible party by a regulatory agency. Additionally, DLA is required to report EL associated with asbestos cleanup in accordance with Federal Accounting Standards Advisory Board (FASAB) Technical Release 10: Implementation Guidance on Asbestos Clean-up Costs Associated with Facilities and Installed Equipment, and FASAB Federal Financial Accounting and Auditing Technical Release No. 2 Determining Probable and Reasonable Estimable for Environmental Liabilities in the Federal Government.

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER software, an independently validated software application, to estimate future environmental costs. The RACER Steering Committee ensures that the software is Validated, Verified, and Accredited (VV&A) in accordance with Department of Defense (DoD) Instruction 5000.61. Additionally, DLA utilizes historical user-defined costs to estimate future environmental costs.

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

The primary change in site level estimate from the previous CTC occurred in the FY 2016 CTC and can be attributed to the increase in Non-BRAC Corrective Actions due to the inclusion of program management support to DLA’s restoration programs as well as the increase of Non-BRAC Closure sites due to the inclusion of additional tanks and pipelines in the estimates from DLA’s EBS inventory. Year-to-year fluctuations in DLA’s ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The latest version of RACER was used to prepare the estimates.

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

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

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

Additionally, in FY 2015, DLA developed and implemented an EL Site Identification (ID) process that reviews the Environmental Event Repository and evaluates each event for EL potentiality for use in the annual CTC and EL financial reporting. During the FY 2015 Site ID Process, the sites identified in the table below were identified as Potential ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. These sites will be re-evaluated during the next Site ID process to determine if any changes have taken place and sufficient information/data is available to create an estimate of future costs that would be included in the Defense Working Capital Fund EL.

DLA Defense Working Capital Fund Potential EL Sites:

Installation	Site Name	Category	Comments
Edwards AFB	Kinder Morgan Pipeline Leak	Potential EL	DLA Energy is researching the event to obtain additional information to make a determination.
Hunter AAF	Pumphouse, POL Island Site	Potential EL	No additional information or request for funding has been provided. At this moment in time, DLA does not know if it is their responsibility. Additional information is required to make a determination.
Fort Riley	Fort Riley Main Post Fuel Point	Potential EL	Additional information is required to make a determination.
Fort Benning	Bulk Fuel Storage Point, Building 2390	Potential EL	Additional information is required to make a determination.
Kirtland AFB	Incident 544	Potential EL	Additional information is required to make a determination.
Holloman AFB	Holloman AFB Incident 611	Potential EL	Additional information is required to make a determination.
Altus AFB	Altus AFB	Potential EL	Additional information is required to make a determination.
AUTEC	AUTEC July 14th Spill	Potential EL	Additional information is required to make a determination.
Eglin AFB	Eglin Fuel Transfer Line Spill	Potential EL	Additional information is required to make a determination.
Camp Atterbury	Camp Atterbury July 20th Spill	Potential EL	Additional information is required to make a determination.
DFSP Norwalk	DFSP Norwalk August 10th Spill	Potential EL	Additional information is required to make a determination.
Edwards AFB	Site 31	Potential EL	Remedial Investigation (RI) and Site Characterization activities are currently ongoing. Additionally funding for an additional well was recently awarded. Additional information is required to make a determination.
FLC Jacksonville	MILCON Area - NFD 15	Potential EL	Results of investigations currently underway are not conclusive and additional information is required to make a determination.
FLC Jacksonville	Northern DFM Area NFD 6	Potential EL	Results of investigations currently underway are not conclusive and additional information is required to make a determination.
NAS Pensacola	Sherman Field Truck Stand 1880	Potential EL	Energy Program Manager stated that funding has been provided for RI activities. Additional information is required to make a determination.
Nellis AFB	JP-8 Pipeline Leaks Facility 198	Potential EL	Contract awarded in FY 2015 is expected to achieve site close-out. Additional funding may be required, pending latest results.
Tinker AFB	JP-8 Pipeline Leak	Potential EL	RI activities have been funded. Awaiting investigation results.
Tinker AFB	Romeo Ramp	Potential EL	RI activities have been funded. Awaiting investigation results.
Tyndall AFB	Site 411	Potential EL	Supplemental site assessment activities are ongoing at the site. Awaiting investigation results.

Installation	Site Name	Category	Comments
Tyndall AFB	Site 413	Potential EL	Supplemental site assessment activities are ongoing at the site. Awaiting investigation results.
Tyndall AFB	Site 6000	Potential EL	Sampling is underway to confirm contamination is not DLA capitalized fuel. It is anticipated that DLA will not be responsible.
DFSP Osan	DFSP Osan Fuel Stand and Bulk Storage Area	Potential EL	Current event status is not known. PM does not anticipate future funding for this event. PM to contact installation for additional information and to confirm event status.
NS Rota, Spain	Tank #6 Leak: 2008	Potential EL	No out-year requirements are anticipated. PM will reach out to the US Navy for concurrence.
Souda Bay, Greece	JP-5 Pipeline	Potential EL	No out-year requirements are anticipated. PM will reach out to the US Navy for concurrence.
RAF Lakenheath, UK	June 2012 Spill	Potential EL	The initial investigation has been funded, but there is not enough information to determine if an EL exists, or to estimate out-year requirements.
RAF Lakenheath, UK	POL 7 Pipeline Leak (November 2013)	Potential EL	The initial investigation has been funded, but there is not enough information to determine if an EL exists, or to estimate out-year requirements.
Camp Blanding, FL	Avenue D Spill Remediation	Potential EL	Investigations are currently underway. Additional information is required to make a determination.
Morrisville, NC	JP8 Fuel Spill	Potential EL	Email provided by PM indicates that the spill was cleaned up, but NC DENR is requiring semi-annual groundwater monitoring. The site remains a risk until DLA receives a No Further Action (NFA) letter.
JB McGuire Dix Lakehurst	SS-12 (Pump House D)	Potential EL	PM stated that investigations are ongoing. Additional information is required to make a determination.
JB McGuire Dix Lakehurst	SS-21 (Pump House C)	Potential EL	PM stated that investigations are ongoing. Additional information is required to make a determination.
Springfield ANG, OH	Springfield ANG	Potential EL	PM stated that the site has reached site closeout; however, there is confusion as to which agency is responsible for funding the closeout. Additional information is required to make a determination.
Seymour Johnson AFB, NC	KC-135 RAMP	Potential EL	The original spill occurred in FY 1992. The U.S. Air Force was managing the site until FY 2014, when they realized it was the responsibility of DLA and transferred management and responsibility. A three year Performance Based Remediation (PBR) contract to complete an RCRA Facilities Investigation (RFI) was awarded September 27, 2014. PM stated that site closeout is anticipated to occur within the Period of Performance (PoP) of the contract. Additional information is required to make a determination.
Seymour Johnson AFB, NC	Transient Ramp and Pump House	Potential EL	The original spill occurred in FY 1992. The U.S. Air Force was managing the site until FY 2014, when they realized it was the responsibility of DLA and transferred management and responsibility. A three year PBR contract to complete a RFI was awarded September 27, 2014. PM stated that site closeout is anticipated to occur within the Period of Performance of the contract. Additional information is required to make a determination.
Hunter	Pipeline Release	Potential EL	An investigation was performed and originally no

Installation	Site Name	Category	Comments
Army Airfield			contamination was found; however, additional fuel was found in a spill bucket. Soil in area exhibited petroleum staining and strong odor. There is not enough information to create an estimate at this time. Additional information is required to make a determination.
FLC San Diego	Spills Database	Potential EL	PM stated that an investigation is currently ongoing. Additional information is required to make a determination.
Hunter Army Airfield	Flight Line Spill	Potential EL	PM stated that if this event is the flight line spill, no further action will be required; however, there is not enough information at this time to rule this event out. Additional information is required to make a determination.
DFSP Kwajalein	DFSP Kwajalein Tank 11	Potential EL	Remediation activities for existing contamination are on-going. DLA has funded this site in the past; however, the US Army recently stated that further funding was not required. PM to contact installation for additional information and to confirm event status.
Tyndall AFB	Tyndall Tank 6046 Underground Pipe Leak	Potential EL	Additional information is required to make a determination.
AUTEC	ASD Fuel MOGAS Spill (at Facility 1694)	Potential EL	Additional information is required to make a determination.
MCAS Miramar	MCAS Miramar Area 13 and Area I	Potential EL	RI was recently funded. PM expects several sites will be closed; however, at this time it is unknown how many will close or remain open. Additional information is required on these sites to make a determination.

Cleanup Costs Associated with Asbestos

The DLA's total environmental liability for asbestos related clean-up reported above is $471.2Million with a potential liability of $479.6 Million.

This range was derived when DLA relied on 29 Code of Federal Regulations (CFR) 1926.1101-Occupational Safety and Health Association (OSHA) to develop the assumption that buildings built prior to 1981 contain asbestos unless proven otherwise and developed an assumption that asbestos removal/remediation would cost approximately $4.41 per GSF on average for buildings of all ages and $6.25 per GSF when only considering those buildings built before 1981. In accordance with Paragraph 39 of Statement of Federal Financial Accounting Standards (SFFAS) No. 5, DLA recognizes the lower of the two estimates as neither amount within the range is a better estimate than the other amount.

Note 15.	Other Liabilities

As of September 30	2015					
		Current Liability		Noncurrent Liability		Total
(Amounts in thousands)						
Intragovernmental						
Judgment Fund Liabilities		18		0		18
FECA Reimbursement to the Department of Labor		12,132		16,470		28,602
Custodial Liabilities		343,712		0		343,712
Employer Contribution and Payroll Taxes Payable		14,824		0		14,824
Total Intragovernmental Other Liabilities	$	370,686	$	16,470	$	387,156
(Amounts in thousands)						
Nonfederal						
Accrued Funded Payroll and Benefits	$	210,194	$	0	$	210,194
Advances from Others		2,059		0		2,059
Contract Holdbacks		1		159		160
Employer Contribution and Payroll Taxes Payable		132		0		132
Contingent Liabilities		33,531		5,148		38,679
Total Nonfederal Other Liabilities	$	245,917	$	5,307	$	251,224
Total Other Liabilities	$	616,603	$	21,777	$	638,380

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

Contingent liabilities includes $38.8 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. DLA has recognized a contingent liability for estimated future payments considered conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

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

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

The DLA has a reasonably possible minimum loss contingency of $14.1 million. This contingency is from 16 cases involving equal employment opportunity and personnel matters, environmental liabilities, and contract disputes, in which the OGC is a party. DLA's AWARS is used by OGC to project the outcome and value of open cases. The AWARS projects a minimum liability of approximately $14.1 million and a maximum liability of approximately $30.0 million.

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

Environmental Contingencies

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

Potential Loss Related to Economic Price Clause Contracts

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

Note 17.	Military Retirement and Other Federal Employment Benefits

As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 226,082	$ 0	$ 226,082
Total Other Benefits	$ 226,082	$ 0	$ 226,082
Total Military Retirement and Other Federal Employment Benefits:	$ 226,082	$ 0	$ 226,082

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2015 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting are as follows:

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

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

CBY	COLA	CPIM
2016	2.17%	3.76%
2017	2.13%	3.86%
2018	2.23%	3.90%
2019	2.30%	3.90% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2015 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2015 projection to the average pattern for the projections of the most recent three years. The cost model used for the estimated actuarial liability is updated only at the end of each fiscal year.

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

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

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

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2015	2014
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 1,961,522	$ 1,796,969
Nonfederal Cost	46,749,471	46,117,913
Total Cost	$ 48,710,993	$ 47,914,882
Earned Revenue		
Intragovernmental Revenue	$ (35,717,275)	$ (35,786,906)
Nonfederal Revenue	(15,319,113)	(10,261,248)
Total Revenue	$ (51,036,388)	$ (46,048,154)
Total Net Cost	$ (2,325,395)	$ 1,866,728
Consolidated		
Gross Cost		
Intragovernmental Cost	$ 1,961,522	$ 1,796,969
Nonfederal Cost	46,749,471	46,117,913
Total Cost	$ 48,710,993	$ 47,914,882
Earned Revenue		
Intragovernmental Revenue	$ (35,717,275)	$ (35,786,906)
Nonfederal Revenue	(15,319,113)	(10,261,248)
Total Revenue	$ (51,036,388)	$ (46,048,154)
Total Net Cost	$ (2,325,395)	$ 1,866,728

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

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

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

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

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

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2015.

The Department complies with SFAAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates".

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

Year Ended September 30, 2015 Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position	Dollars in Millions	
	Total	
Appropriations, Statement of Budgetary Resources	$	130.6
Appropriations Received, Statement of Changes in Net Position		130.6
Total Reconciling Amount	$	0
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	0
Miscellaneous items		
Items Reported in Net Cost of Operations, Statement of Changes in Net Position		
Trust and Special Fund Receipts		
Total Reconciling Items	$	0

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30		2015		2014
(Amounts in thousands)				
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	15,612,684	$	20,291,310

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

($ billions)	**Category A**	**Category B**	**Totals**
Direct Obligations Incurred	0	$ 130,643,000	$ 130,643,000
Reimbursable Obligations Incurred	0	$40,158,762,379	$40,158,762,379
Obligations Exempt From Apportionment	0	$ 0	$ 0
Totals	0	$40,289,405,378	$40,289,405,379

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30		2015		2014
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	40,289,405	$	43,817,101
Less: Spending authority from offsetting collections and recoveries (-)		(46,876,181)		(41,855,156)
Obligations net of offsetting collections and recoveries	$	(6,586,776)	$	1,961,945
Net obligations	$	(6,586,776)	$	1,961,945
Other Resources:				
Transfers in/out without reimbursement (+/-)		1,446,811		2,020,940
Imputed financing from costs absorbed by others		149,230		174,248
Other (+/-)		(12,809)		(1)
Net other resources used to finance activities	$	1,583,232	$	2,195,187
Total resources used to finance activities	$	(5,003,544)	$	4,157,132
Resources Used to Finance Items not Part of the Net Cost of Operations:				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	$	4,678,627	$	(760,160)
12b. Unfilled Customer Orders		(684,377)		(1,079,979)
Resources that fund expenses recognized in prior Periods (-)		(24,751)		(13,350)
Resources that finance the acquisition of assets (-)		(28,032,907)		(31,132,800)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Other (+/-)		(1,434,002)		(2,020,940)
Total resources used to finance items not part of the Net Cost of Operations	$	(25,497,410)	$	(35,007,229)
Total resources used to finance the Net Cost of Operations	$	(30,500,954)	$	(30,850,097)

As of September 30		2015		2014
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in environmental and disposal liability	$	0	$	505,890
Increase in exchange revenue receivable from the public (-)		(375,589)		(48,176)
Other (+/-)		684,061		33,544
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	308,472	$	491,258
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	1,691,665	$	390,674
Revaluation of assets or liabilities (+/-)		(3,318,889)		511,710
Other (+/-)				
Cost of Goods Sold		29,635,976		31,755,298
Other		(141,665)		(432,115)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	27,867,087	$	32,225,567
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	28,175,559	$	32,716,825
Net Cost of Operations	$	(2,325,395)	$	1,866,728

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

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

DLA adjusted the note schedule in the amount of ($319,568,189.75) to bring it into balance with the Statement of Net Cost. Report the adjustment in one of three categories: Resources That Finance the Acquisition of Assets, Other Components Not Requiring of Generating Resource, or Revaluation of Assets or Liabilities

The Reconciliation of Net Cost of Operations to Budget lines is presented as combined instead of consolidated as interagency budgetary transactions are not eliminated. See below:

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

Composition of Other Lines

Resources Used to Finance Items not part of Net Cost of Operations: Other consists of transfers in without reimbursement for DLA Supply Chain Management, DLA Energy and Document Services for Defense Working Capital Fund transfer of FBWT from the Component level to the Activity Level.

Components Requiring or Generating Resources in Future Period: Other consists of DLA Supply Chain Management recording of Contingent Legal Liabilities.

Components not Requiring or Generating Resources: Other consists of recording of an Allowance for Loss on Accounts Receivable and Interest Receivable based upon Aged Receivables and the established percentages of the various delinquent categories of the debts.

Note 22.	Disclosures Related to Incidental Custodial Collections

This note is not applicable to the DLA WCF.

Note 23.	Funds from Dedicated Collections

This note is not applicable to the DLA WCF.

Note 24.	Fiduciary Activities

This note is not applicable to the DLA WCF.

Note 25.	Other Disclosures

This note is not applicable to the DLA WCF.

Note 26.	Restatements

This note is not applicable to the DLA WCF.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Years Ended September 30, 2015 and 2014

Heritage Assets

For Fiscal Year Ended September 30, 2015

HERITAGE ASSETS For Fiscal Year Ended September 30, 2015					
Heritage Asset Categories	Measurement Quantity	As of 10/01/14	Additions	Deletions	As of 9/30/15
Buildings and Structures	Each	4			4
Archeological Sites	Each	NA			NA
Museum Collection Items (Objects, Not Including Fine Art)	Each	NA			NA
Museum Collection Items (Fine Art)	Each	NA			NA

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

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

The fiscal year 2015 categories are defined as follows:

Buildings and Structures

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

Archeological Site

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

Museum Collection Items

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

Heritage Assets Acquisition Method

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

Stewardship Land

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

DLA has no Stewardship Land.

Real Property Deferred Maintenance and Repair For Fiscal Year Ended September 30, 2015 ($ in Millions)						
	Fiscal Year (2014)			Fiscal Year (2015)		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage (Required Work/Plant Replacement Value)	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage (Required Work /Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$38,283.9	$ 1,111.3	2.9%	$ 40,312.5	$ 1,179.1	2.9%
Category2: Buildings, Structures, and Linear Structures (Heritage assets)	$ 2.4	$ 0.3	12.5%	$ 2.8	$ 0.5	17.9%
Inactive Real						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 77.5.	$ 0.5	0.6%	$ 369.6	$ 8.9	2.4%

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

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

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

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

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

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

Facility Categories are as follows:

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

SUPPLY MANAGEMENT ACTIVITY GROUP OVERVIEW

SUPPLY MANAGEMENT ACTIVITY GROUP

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

MISSION

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

The primary logistics functions include:

- Supply-chain integration and inventory management;
- Transportation management (shared with DLA Distribution Activity Group);
- Technical management, which guarantees product quality and proper pricing of materiel;
- Procurement management, ensuring DoD gets the best value;
- Logistics data and information collection, management, and distribution and

providing for the integration and availability of this information; and,

- Logistics management process and processing of logistics and standard Military Logistics Systems transactions.

STRATEGIC GOALS

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

- **Strategic Sourcing (SS):** SS focuses on stratifying and satisfying customer driven high demand and readiness hardware items through long-term contracting coverage and process improvements. Over 201,300 of the 3.8 million hardware items managed by DLA are through long-term agreements. Long-term contract items made up 74% of DLA spending in FY 2015.

- **War stopper Program:** This program recognizes that peacetime demand for certain items is inadequate to sustain an industrial base sufficient for readiness and mobilization. Consequently, extra preparedness measures are required for those items, and that critical industrial capabilities must be preserved to support the Department's readiness and sustainment requirements. In most cases, the War stopper Program preserves essential production capability by investing in industry responsiveness to a projected surge requirement without purchasing, storing, and managing a finished goods inventory. This concept applies to items such as chemical protective suits, nerve agent antidote auto- injectors, meals-ready-to-eat, and tray pack assemblies. The most recent return on investment (ROI) analysis for the program indicates that from 1993 through 2014 the War stopper program has offset nearly $13 billion in War Reserve Materiel inventory purchases - a return on investment of more than 10:1. DLA expects a similar ROI on the $48 million War stopper Program investment made in FY 2015.

- **Strategic Supplier Alliances (SSAs):** SSAs are long-term partnerships formed with DLA's key suppliers, allowing the Agency and the supplier to work together by sharing information and jointly working problem areas. The result is added value for both parties and improved support to the warfighters. There are currently 25 SSAs and each is assigned to a Supplier Relationship Manager, whose primary responsibility is the maintenance and success of the partnership. There are no plans at this time to add additional SSAs.

- **Supply Chain Alliances (SCAs)**: An outgrowth of the SSA initiative, SCAs are alliances with key suppliers who provide both sole source and competitive items. SCAs further the goals of the SRM transformation effort by adding value to both DLA and the supplier. DLA has formed SCAs with 13 suppliers. Several SCAs were dropped over the last year. There are no plans at this time to add additional SCAs. To assist all suppliers with their operational planning, DLA provided them with a tool, the Supplier Requirements Visibility Application, which forecasts 24 months of requirements for both competitive and sole source items. This initiative is essential in achieving the DLA objective of linking supply with demand.

- **Captains of Industry (COI)**: The Captains of Industry (COI) Program is designed to create an acquisition partnership between Industry Leaders and DLA Supply Chain and Acquisition Leaders. COI's mission is to eliminate unnecessary contractual costs and inefficiencies across DLA's 10 supply chains to provide better value for both the Taxpayer and the Warfighter. COI was started in March 2012 as DLA Acquisition's premiere effort to decrease material costs across the agency. The COI program has sought to share information with current and potential industry partners, both large and small businesses, including those new to government contracting. COI is not an attack on industry profits, rather a focus on lowering costs. Often our Industry Partners are the best source for market information. DLA has realized, through COI that early, frequent, and constructive engagement with industry partners leads to better acquisition outcomes. Numerous lessons learned and best practices identified during these COI events have then been shared across DLA's diverse supply chains. To date, $2.9B in cost savings and avoidances through FY 2015 have been identified by COI. As a Working Capital Fund organization, DLA does not keep these funds but passes these savings directly back to our DoD Services and Federal Agency customers through reduced cost recovery and overhead rates. In a time of financial uncertainty, this allows our customers' ever shrinking budgets to go further.

EBS Customer-Relationship Management (CRM): DLA uses standard Enterprise-wide automated management tools and processes to more deliberately understand warfighter needs and meet customer expectations. In March 2006, DLA began using these EBS CRM tools and processes for account management, opportunity management, and customer outreach. In the following month, analytics and service modules were configured and deployed. EBS CRM reached full operational capability in July 2007. In March 2008, EBS CRM was extended to our Supplier Operations business area in order to capture life-cycle documentation of customer issues such as expedite requests.

Approximately 5,400 DLA employees now use the system. EBS CRM system enhancements continually improve program reporting, customer outreach, account management, opportunity management and various other service capabilities. Examples of recent and on-going improvements include:

- Continuing to increase business area focus within DLA's Customer Interaction Center (CIC) for documentation of customer issues within CRM Service Management {e.g., acquired new mission supporting customer inquiries/requests on the Wildland Fire Protection Program (WFPP)}. Daily emergency requisition requests are tracked and forwarded to be included in DLA J3's daily Executive Summary.

- Conducting a Continuous Process Improvement initiative on the uniform use of CRM's Service Management process to provide lifecycle documentation on customer inquiries/requests.

- Implementing CRM Service Management to support documentation of customer service requirements with our Fleet Readiness Centers (FRCs).

- Expanding CRM process areas within DLA Disposition Services business areas. New functionality implemented to assist Sales Contracting Officers the ability to see available disposable material at all locations supporting public offerings—increased sales.

- Continuing to track external customer survey responses resulting from EBS, CRM Service Management's automatic distribution of survey requests based on customer transactional inquiries/requests – provides a customer experience pulse check on a specific service incident.

PROGRAM PERFORMANCE INDICATORS

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

- **Material Availability (MA)** is used to identify performance issues within the logistics pipeline. As such, MA is DLA's overarching metric. MA is used to identify the capability of DLA to immediately issue materiel, both stocked and vendor-supplied, in response to customer requisitions. MA has a direct impact on DLA's operational performance and metrics such as total and aged backorders, timeliness and inventory efficiency. MA is reported as a percent of orders that are immediately issued out of the total number of orders received in the given time period of interest.

DLA's overall MA for FY 2014 was 96.0%. The hardware portion of DLA's business performed at 89.6%, which is below the Director's established goal of 91.0%. The PLFAs have action plans in place for improving their supply chain MA throughout the course of FY 2015 which includes agile procurement and maintaining accurate stockage levels while balancing costs. The FY 2015 goals remain unchanged from FY 2014 levels. Performance in mid FY 2015 has averaged at 96.3% for overall MA, and 90.1% for the hardware portion.

- **Total and Aged Backorders (BOs)** reflect gaps in DLA's ability to fill or satisfy customer order requirements in a timely manner and are used to measure the number of orders received that have not been fulfilled by DLA the particular date of interest. Total BOs are customer orders which are in a backorder status for material that DLA can act upon to expedite the fill. There is filtering logic in place that excludes select open orders that automatically go into Unfilled Order (UFO) status as part of the process of filling the order. The total number of all BOs, the number of BOs that are currently over 180 days old (referred to as "aged BOs"), and the number of BOs that are currently over 3 years old are measured. Because backorders create a failure for MA, the two metrics are typically correlated—a high level of backorders generally corresponds to a lower MA. At the close of FY 2014, backorders measured 452,469 across the Agency, with 94,064 in the aged category. For hardware, backorders were at 288,921 against a Director established goal of 208,260. The aged category for hardware measured at 72,159 against a Director established goal of 41,652. Finally, backorders older than 3 years measured at 864, a 37% reduction from the beginning of the fiscal year, but still above the Director established goal of zero. The largest volume of backorders is for DLA stocked items (AAC D). As with MA, the PLFAs have action plans in place to reduce their backorder levels over the course of FY 2015. The FY 2015 goals remain unchanged from FY 2014 levels. Total BO performance as of July 2015 was at 242,520 for hardware, while aged BOs was at 68,387, and BOs older than three years was at 978.

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

- **Order Response Time (ORT)** measures the SC responsiveness to Air Force Air Logistics Center (ALC) customer demands for DLA items. Included in each month's population are AF Maintenance document (M-doc) orders created in the reporting month, both filled and remaining on backorder at month end. Age is determined from Julian date in Maintenance document through issue date (date stock is located on base). Any cancellations are removed from population at month end. Management objective is

90% of orders received in a reporting month are filled within two days. Each ALC's ORT is computed using the same logic, methodology, and data source (COPA). Reporting methodology was changed in December 2013. Performance has continued to steadily improve in FY 2014 at an average of 89%. Focused improvement efforts continue at DLA Aviation to adjust stock positioning and stockage criteria to maximize ALC ORT rates. These efforts include the implementation of Economic SKU Builder (November 12), the implementation of Peak/Next Gen Logic (January 2013), multiple changes in Retail SKU logic (May 2013 and September 2013), a change to allow retail SKUs on IPV items that have depot demand (October 2013), and a significant safety stock investment to improve availability of stock at the ISAs (November 2013). These efforts, along with in-depth local reviews and analysis, will position the ISAs for marked improvement to ORT. By FY 2015, ORT improved consistently above the goal of 90% and the goal was increased to 92%. This far in FY 2015, ORT has averaged at 92.2%.

- **Procurement Productivity** measures the Supply Chains response to Purchase Requests (PRs) by awarding either contracts or Purchase Orders and maintaining an acceptable level of backlog, PRs in process. This process includes manual awards, automated awards, placing delivery orders on existing Long Term Contracts and cancellations, as measured against the number of PRs in process. During FY 2015, the Supply Chains reduced PRs in process from 120,424 at the end of October 2012 to 96,085 (as of June 6, 2015).

- Time To Award Goal: Automated Awards w/o Buyer Assist
    - This metric tracks all Simplified Acquisition Procedure (SAP) awards processed by the automated evaluation system with no human intervention. The Time to Award goal is 10 days. As of May 2015, the 85th percentile measured 15 days, which is down from 17 days in September 2014.

- Time To Award Goal: Manual (SAP) Awards w/Buyer Assist
    - This metric tracks all SAPs processed only by human intervention. The Time to Award goal is 35 days. As of May 2015, the 85th percentile measured 129 days, which is down from 140 days in September 2014.

- Time To Award Goal: Manual (Large) Awards
    - This metric tracks all Large contracts (over SAP), which can only be processed by humans. The Time to Award goal is 110 days. As of May 2015, the 85th percentile measured 337 days, which is up from 281 days in September 2014.

- Time To Award Goal: Long Term Contract (LTC) Awards
    - This metric tracks all LTCs (Delivery Orders can only come from LTC "D-

type" contracts), which can only be processed by humans.

- For LTCs valued at less than $10.0 million (the Time to Award goal is 140 days):
  - As of April 2015, the 85th percentile measured 332 days, which is down from 345 days in September 2014.

- For LTCs valued at more than $10.0 million (the Time to Award goal is 190 days):
  - As of April 2015, the 85th percentile measured 327 days, which is down from 510 days in September 2014.

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

- **LTC Obligation Rate:** Measures the overall success at maintaining coverage and selecting the correct items, and in the right quantities, to be placed on LTC as a percent of total obligations made against items on LTCs during the fiscal year. The FY 2015 (as of May 2015) TC contract obligations rate was 74%. The DLA HQ continue to track strategic opportunity initiatives established by the PLFA's.

FINANCIAL PERFORMANCE MEASURES

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

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

Unit Cost Results	FY 2015 Goal	FY 2015 Actual
DLA Materiel Supply Chains	$0.98	$1.01
DLA Distribution –Processing	$36.36	$36.89
DLA Distribution – Covered Storage	$6.04	$11.21
DLA Disposition Services – Per Line Item	$68.83	$61.36
DLA Disposition Services – Per Pound	$0.09	$0.09

Unit Cost Results	FY 2015 Goal	FY 2015 Actual
Energy Unit Cost per barrel sold	$157.87	$109.73
Petroleum Product Cost per barrel	$134.46	$91.65

FINANCIAL RESULTS

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

Overall, the Agency had a negative net operating result of ($270.8) million in FY 2015. The primary drivers for the NOR financial loss is the reprogramming of ($1,205.7) million from DLA Energy and higher expenses for DLA SCM; partially offset by lower product costs and higher sales for DLA Energy and higher sales for DLA SCM. The Agency's net outlays were $3,069.2 million due to lower product costs and higher sales for DLA Energy and higher sales for DLA SCM; partially offset by higher disbursements for DLA SCM.

($ in millions)	NOR	Net Outlays
DLA Energy	($81.2)	($3,675.3)
DLA Supply Chain Management	($648.5)	$622.2
DLA Document Services	($5.8)	($16.1)
DLA WCF	($1,867.1)	($3,069.2)

DLA SUPPLY MANAGEMENT ACTIVITY GROUP FINANCIAL STATEMENTS

Department of Defense **Unaudited**

Defense Logistics Agency Supply Management

Consolidated Balance Sheet

As of September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
ASSETS		
Intragovernmental:		
Fund Balance with Treasury	$ 3,121,068	$ 0
Accounts Receivable	1,308,835	1,593,640
Other Assets	124,925	124,925
Total Intragovernmental Assets	$ 4,554,828	$ 1,718,565
Accounts Receivable, Net	1,307,544	992,945
Inventory and Related Property, Net	17,588,589	18,626,636
General Property, Plant and Equipment, Net	3,048,907	1,626,960
Other Assets	44,125	37,282
TOTAL ASSETS	$ 26,543,992	$ 23,002,388
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 112,920	$ 116,546
Other Liabilities	385,546	373,294
Total Intragovernmental Liabilities	$ 498,466	$ 489,840
Accounts Payable	$ 2,050,262	$ 1,871,696
Military Retirement and Other Federal Employment Benefits	216,039	235,941
Environmental and Disposal Liabilities	1,758,848	1,076,030
Other Liabilities	246,779	242,793
TOTAL LIABILITIES	$ 4,770,395	$ 3,916,300
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Cumulative Results of Operations - Other Funds	21,773,598	19,086,088
TOTAL NET POSITION	$ 21,773,598	$ 19,086,088
TOTAL LIABILITIES AND NET POSITION	$ 26,543,992	$ 23,002,388

Department of Defense **Unaudited**

Defense Logistics Agency Supply Management

Consolidated Statement of Net Cost

For the periods ended September 30, 2015 and 2014

		2015 Consolidated		2014 Consolidated
Program Costs				
Gross Costs	$	48,418,771	$	47,635,200
(Less: Earned Revenue)		(50,748,623)		(45,783,007)
Net Cost before Losses/(Gains) from Actuarial for Military Retirement Benefits		(2,329,853)		-
Net Program Costs Including Assumption Changes		2,329,853		1,852,193
Net Cost of Operations	$	2,329,853	$	1,852,193

Department of Defense Unaudited

Defense Logistics Agency Supply Management

Consolidated Statement of Changes in Net Position

For the periods ended September 30, 2015 and 2014

	2015 Consolidated	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 19,086,088	$ 19,195,694
Beginning balances, as adjusted (Includes Funds from Dedicated Collections	19,086,088	19,195,694
Budgetary Financing Sources:		
Appropriations used	130,643	178,106
Nonexchange revenue	12,657	(192)
Transfers-in/out without reimbursement	(1,205,663)	(623,425)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	1,287,394	2,018,598
Imputed financing from costs absorbed by others	145,436	169,501
Other (+/-)	(12,808)	(1)
Total Financing Sources (Includes Funds from Dedicated Collections	357,658	1,742,587
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections	584,673	1,852,193
Net Change	2,687,510	(109,606)
Cumulative Results of Operations (Includes Funds from Dedicated Collections	21,773,598	19,086,088
Collections		
Appropriations transferred-in/out	130,643	178,106
Appropriations used	(130,643)	(178,106)
Dedicated Collections		
Dedicated Collections		
Net Position	$ 21,773,598	$ 19,086,088

Department of Defense **Unaudited**

Defense Logistics Agency Supply Management

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ 0	$ 0
Unobligated balance brought forward, Oct 1, as adjusted,	0	0
Recoveries of prior year unpaid obligations	9,810,742	5,333,258
Other changes in unobligated balance (+ or -)	(11,016,404)	(5,680,758)
Unobligated balance from prior year budget authority, net	(1,205,663)	(347,500)
Appropriations (discretionary and mandatory)	130,643	178,106
Contract Authority (discretionary and mandatory)	39,846,123	43,341,472
Spending Authority from offsetting collections	1,205,663	347,501
Total Budgetary Resources	39,976,766	43,519,579
Status of Budgetary Resources:		
Obligations Incurred	39,976,766	43,519,579
Unobligated balance, end of year		
Apportioned	0	0
Total unobligated balance, end of year	0	0
Total Budgetary Resources	39,976,766	43,519,579
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	22,430,588	22,296,783
Obligations incurred	39,976,766	43,519,579
Outlays (gross) (-)	(34,670,921)	(38,052,516)
Recoveries of prior year unpaid obligations (-)	(9,810,742)	(5,333,258)
Unpaid obligations, end of year	17,925,692	22,430,588
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1	(9,288,449)	(10,159,502)
Change in uncollected pymts, Fed sources (+ or -)	982,526	871,053
Uncollected pymts, Fed sources, end of year (-)	(8,305,923)	(9,288,449)
Obligated balance, start of year (+ or -)	13,142,139	12,137,281
Obligated balance, end of year (+ or -)	$ 9,619,769	$ 13,142,139

Department of Defense **Unaudited**

Defense Logistics Agency Supply Management

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 41,182,429	$ 43,867,078
Actual offsetting collections (discretionary and mandatory) (-)	(37,724,010)	(37,088,696)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	982,526	871,053
Budget Authority, net (discretionary and mandatory)	4,440,945	7,649,435
Outlays, gross (discretionary and mandatory)	34,670,921	38,052,516
Actual offsetting collections (discretionary and mandatory)	(37,724,010)	(37,088,696)
Outlays, net (discretionary and mandatory)	(3,053,089)	963,820
Agency Outlays, net (discretionary and mandatory)	$ (3,053,089)	$ 963,820

DOCUMENT SERVICES OVERVIEW

DOCUMENT SERVICES

Document Services is responsible for printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated services to include: document workflow, conversion, electronic storage and output, and distribution of hard copy and digital information. Document Services provides time sensitive, competitively priced, high quality products and services that are either produced in-house or procured commercially Document Services manages its mission through a headquarters, located in Mechanicsburg, PA, and a worldwide network of 140 production facilities. During FY 2015, Document Services earned $287.6 million in revenue and employed 660 civilians at year-end. Major customers were: Navy (33.7%), Defense Agencies (31.8%), Army (19.4%), Air Force (12.0%) and non-DoD customers (3.1%).

MISSION

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

STRATEGIC GOALS

Document Services is committed to the following goals:

- Serving as a major catalyst in transforming business by revolutionizing document automation services;
- Rapidly utilizing technology for agile and responsive internal business solutions;
- Aggressively pursuing business relationships with government, industry, and suppliers;
- Ensuring Document Services workforce is enabled to deliver and sustain world- class performance;
- Striving to reduce costs, simplify organizational structure, eliminate unnecessary facilities, and ensure that equipment and personnel are commensurate with workload; and,
- Aligning processes to focus on improving the quality of products and services while meeting or exceeding customers' delivery requirements.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Document Services received National Intelligence Meritorious Unit Citation for its print on demand (PoD) efforts with the National Geospatial Intelligence Agency (NGA). Through the partnership, the Defense Logistics Agency Transition Team successfully changed the paradigm for printing and replication of mapping, charting, and geodesy and safety of navigation products from print and warehouse to PoD. The NGA DLA PoD process has reduced print times from up to nine weeks to days in most cases, with 80% of all print missions now using PoD. The team's effort cut the volume of print and replication needed to meet DoD requirements by 50% and will save the taxpayer many tens of millions of dollars over the next five years. PoD is a best business practice and a tenet of just-in-time-logistics. The new paradigm has freed warehouse space previously consumed by over 87 million maps and charts that were often replaced before being used.

Document Services began Phase II of its Partnership with National Geospatial-intelligence Agency (NGA). Phase II of the implementation commenced in June 2015 and involved the production of DoD Flight Information Publications (FLIP) products. FLIP includes books, publications and charts to support DoD and non-DoD customers requiring these products for worldwide aeronautical navigation safety. The majority of the products are critical to flight safety, and are time-sensitive in accordance with the international Aeronautical Information Regulation and Control (AIRAC) cycle. Document Services will accomplish this workload using a combination of in-house capability and contract.

Document Services successfully completed End of Year (EOY) output for Defense Finance and Accounting Service (DFAS). This was the first year that Document Services printed the entire run to include the Retiree Account Statements (RAS) and the Annuitant Account Statements (AAS). This was a very aggressive schedule, as Document Services was challenged to complete over 8 million units within 60 days, December through January.

Document Services entered final phase of scanning for detainee records. Working with the U.S. Army Provost Marshall Detainee Conversion Project Lead, Document Services scanned 6.8 million records in the initial phase of the scanning project. The final phase of scanning of detainee records is expected to scan 4.0 million additional records, with a projected completion date of 30 Sept 2016.

PROGRAM PERFORMANCE INDICATORS

Quality of Products and Services: This performance metric measures customer satisfaction with quality of finished product as a percentage of customers ranking Document Services quality performance as "satisfied" or "very satisfied." Document Services uses a survey, professionally prepared and administered by an independent entity, to determine quality of finished product rating. Document Services achieved its goal of 95%, with a weighted overall quality of products and services rating of 93.8%, with a 2% margin of error.

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking Document Services performance as "satisfied" or "very satisfied." Document Services uses a survey, professionally prepared and administered by an independent entity, to determine an overall customer satisfaction rating. In its most recent available full year survey, the overall satisfaction of 89.8%, with a margin of error of 2%, was below the 93% goal.

FINANCIAL PERFORMANCE MEASURES

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

Unit Cost Results	**FY 2015 Goal**	**FY 2015 Actual**
Unit Cost per In-House Production Unit	.1738	.1598

Document Services produced 3% less in-house units than planned (714.4 million actual versus 734.8 million planned). Actual in-house costs were lower than planned ($114.1 million actual versus $127.7 million planned). The lower in-house cost is driven primarily by the declining workload and the reduction of in-house facility level overhead expenses. Document Services exceeded its in-house goal.

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of expenses over revenue of approximately $2.4 million. However, an approximate $5.0 million deferred operating result caused a recoverable net operating result of $2.5 million.

DOCUMENT SERVICES
FINANCIAL STATEMENTS

Department of Defense Unaudited

Defense Logistics Agency Document Services

Consolidated Balance Sheet

As of September 30, 2015 and 2014

	2015 Consolidated		2014 Consolidated	
ASSETS				
Intragovernmental:				
Fund Balance with Treasury	$	175,515	$	0
Accounts Receivable		36,852		48,998
Total Intragovernmental Assets	$	212,367	$	48,998
Accounts Receivable, Net		120		137
Inventory and Related Property, Net		2,328		2,206
General Property, Plant and Equipment, Net		6,747		12,803
Other Assets		0		4
TOTAL ASSETS	$	221,563	$	64,149
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT				
LIABILITIES				
Intragovernmental:				
Accounts Payable	$	5,014	$	6,599
Other Liabilities		1,610		1,621
Total Intragovernmental Liabilities	$	6,624	$	8,220
Accounts Payable	$	34,972	$	32,256
Military Retirement and Other Federal Employment Benefits		10,043		11,824
Other Liabilities		4,445		5,125
TOTAL LIABILITIES	$	56,083	$	57,425
COMMITMENTS AND CONTINGENCIES				
NET POSITION				
Cumulative Results of Operations - Other Funds		165,479		6,724
TOTAL NET POSITION	$	165,479	$	6,724
TOTAL LIABILITIES AND NET POSITION	$	221,563	$	64,149

Department of Defense **Unaudited**

Defense Logistics Agency Document Services

Consolidated Statement of Net Cost

For the periods ended September 30, 2015 and 2014

	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs	$ 292,222	$ 279,682
(Less: Earned Revenue)	(287,765)	(265,146)
Net Cost before Losses/(Gains) from Actuarial Assumption for Military Retirement Benefits	4,458	14,535
Net Program Costs Including Assumption Changes	4,458	14,535
Net Cost of Operations	$ 4,458	$ 14,535

Department of Defense **Unaudited**

Defense Logistics Agency Document Services

Consolidated Statement of Changes in Net Position

For the periods ended September 30, 2015 and 2014

		2015 Consolidated		2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	6,724	$	14,173
Beginning balances, as adjusted (Includes Funds from Dedicated Collections		6,724		14,173
Budgetary Financing Sources:				
Nonexchange revenue		1		(3)
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)		159,417		2,342
Imputed financing from costs absorbed by others		3,794		4,747
Other (+/-)		1		0
Total Financing Sources (Includes Funds from Dedicated Collections		163,213		7,086
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections		4,458		14,535
Net Change		158,755		(7,449)
Cumulative Results of Operations (Includes Funds from Dedicated Collections		165,479		6,724
Collections				
Dedicated Collections				
Dedicated Collections				
Net Position	$	165,479	$	6,724

Defense Logistics Agency Document Services
Combined Statement of Budgetary Resources
For the periods ended September 30, 2015 and 2014

	2015 Combined	2014 Combined
Budgetary Resources		
Unobligated balance brought forward, Oct 1	$ 122,742	$ 116,155
Unobligated balance brought forward, Oct 1,	122,742	116,155
Recoveries of prior year unpaid obligations	38,150	37,407
Other changes in unobligated balance (+ or -)	(120)	0
Unobligated balance from prior year budget authority, net	160,773	153,562
Spending Authority from offsetting collections	285,805	266,704
Total Budgetary Resources	446,578	420,265
Status of Budgetary Resources:		
Obligations Incurred	312,639	297,523
Unobligated balance, end of year		
Apportioned	133,939	122,742
Total unobligated balance, end of year	133,939	122,742
Total Budgetary Resources	446,578	420,265
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	122,340	116,331
Obligations incurred	312,639	297,523
Outlays (gross) (-)	(281,324)	(254,107)
Recoveries of prior year unpaid obligations (-)	(38,150)	(37,407)
Unpaid obligations, end of year	115,504	122,340
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(85,545)	(70,824)
Change in uncollected pymts, Fed sources (+ or -)	11,617	(14,721)
Uncollected pymts, Fed sources, end of year (-)	(73,928)	(85,545)
Obligated balance, start of year (+ or -)	36,795	45,507
Obligated balance, end of year (+ or -)	$ 41,576	$ 36,795

Department of Defense **Unaudited**

Defense Logistics Agency - Document Services

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

		2015 Combined		2014 Combined
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	285,805	$	266,704
Actual offsetting collections (discretionary and mandatory) (-)		(297,422)		(252,126)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)		11,617		(14,721)
Budget Authority, net (discretionary and mandatory)		0		(144)
Outlays, gross (discretionary and mandatory)		281,324		254,107
Actual offsetting collections (discretionary and mandatory) (-)		(297,422)		(252,126)
Outlays, net (discretionary and mandatory)		(16,098)		1,981
Agency Outlays, net (discretionary and mandatory)	$	(16,098)	$	1,981

DLA GENERAL FUND FINANCIAL STATEMENTS AND FOOTNOTES

Department of Defense **Unaudited**
Defense Logistics Agency General Fund
Consolidated Balance Sheet
As of September 30, 2015 and 2014
($ in Thousands)

		2015 Consolidated		2014 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,469,172	$	1,402,995
Accounts Receivable (Note 5)		10,157		8,310
Total Intragovernmental Assets	$	1,479,329	$	1,411,305
Accounts Receivable, Net (Note 5)		11		81
General Property, Plant and Equipment, Net (Note 10)		1,083,116		917,246
Other Assets (Note 6)		2,106		216
TOTAL ASSETS	$	2,564,562	$	2,328,848
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	8,845	$	21,311
Other Liabilities (Note 15 & 16)		2,551		3,311
Total Intragovernmental Liabilities	$	11,396	$	24,622
Accounts Payable (Note 12)	$	41,564	$	8,861
Military Retirement and Other Federal Employment Benefits (Note 17)		4,839		5,527
Environmental and Disposal Liabilities (Note 14)		165,981		291,309
Other Liabilities (Note 15 and Note 16)		3,310		3,837
TOTAL LIABILITIES	$	227,090	$	334,156
NET POSITION				
Unexpended Appropriations - Other Funds		1,407,812		1,354,585
Cumulative Results of Operations - Other Funds		929,660		640,107
TOTAL NET POSITION	$	2,337,472	$	1,994,692
TOTAL LIABILITIES AND NET POSITION	$	2,564,562	$	2,328,848

The accompanying notes are an integral part of these

Department of Defense **Unaudited**

Defense Logistics Agency General Fund

Consolidated Statement of Net Cost

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
Program Costs		
Gross Costs	$ 424,926	$ 614,873
(Less: Earned Revenue)	(78,884)	(51,203)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	346,042	563,670
Net Program Costs Including Assumption Changes	346,042	563,670
Net Cost of Operations	$ 346,042	$ 563,670

The accompanying notes are an integral part of these statements.

Defense Logistics Agency General Fund

Consolidated Statement of Changes in Net Position

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Consolidated	2014 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 640,107	$ 510,595
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	640,107	510,595
Budgetary Financing Sources:		
Other adjustments (rescissions, etc.)	(62)	0
Appropriations used	863,321	887,341
Transfers-in/out without reimbursement	0	5,113
Other Financing Sources:		
Donations and forfeitures of property	0	3
Transfers-in/out without reimbursement (+/-)	(230,352)	(202,488)
Imputed financing from costs absorbed by others	2,687	3,212
Other (+/-)	1	1
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	635,595	693,182
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	346,042	563,670
Net Change	289,553	129,512
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	929,660	640,107
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	$ 1,354,584	$ 1,214,960
Beginning balances, as adjusted	1,354,584	1,214,960
Budgetary Financing Sources:		
Appropriations received	904,989	1,014,771
Appropriations transferred-in/out	25,944	19,573
Other adjustments (rescissions, etc.)	(14,384)	(7,378)
Appropriations used	(863,321)	(887,341)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	53,228	139,625
Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	1,407,812	1,354,585
Net Position	$ 2,337,472	$ 1,994,692

The accompanying notes are an integral part of these statements.

Department of Defense **Unaudited**

Defense Logistics Agency General Fund

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ 522,921	$ 488,048
Unobligated balance brought forward, Oct 1, as adjusted,	522,921	488,048
Recoveries of prior year unpaid obligations	55,900	40,446
Other changes in unobligated balance (+ or -)	5,350	14,425
Unobligated balance from prior year budget authority, net	584,171	542,919
Appropriations (discretionary and mandatory)	911,140	1,017,654
Spending Authority from offsetting collections	74,421	63,038
Total Budgetary Resources	1,569,732	1,623,611
Status of Budgetary Resources:		
Obligations Incurred	1,126,986	1,100,690
Unobligated balance, end of year		
Apportioned	362,030	473,121
Unapportioned	80,716	49,800
Total unobligated balance, end of year	442,746	522,921
Total Budgetary Resources	1,569,732	1,623,611
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	909,812	784,891
Obligations incurred	1,126,986	1,100,690
Outlays (gross) (-)	(915,388)	(935,323)
Recoveries of prior year unpaid obligations (-)	(55,900)	(40,446)
Unpaid obligations, end of year	1,065,510	909,812
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(29,738)	(6,857)
Change in uncollected pymts, Fed sources (+ or -)	(9,343)	(22,881)
Uncollected pymts, Fed sources, end of year (-)	(39,081)	(29,738)
Obligated balance, start of year (+ or -)	880,074	778,034
Obligated balance, end of year (+ or -)	$ 1,026,429	$ 880,074

The accompanying notes are an integral part of these statements.

Department of Defense **Unaudited**

Defense Logistics Agency General Fund

Combined Statement of Budgetary Resources

For the periods ended September 30, 2015 and 2014

($ in Thousands)

	2015 Combined	2014 Combined
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 985,561	$ 1,080,692
Actual offsetting collections (discretionary and mandatory) (-)	(65,079)	(40,157)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(9,343)	(22,881)
Budget Authority, net (discretionary and mandatory)	911,139	1,017,654
Outlays, gross (discretionary and mandatory)	915,388	935,323
Actual offsetting collections (discretionary and mandatory) (-)	(65,079)	(40,157)
Outlays, net (discretionary and mandatory)	850,309	895,166
Agency Outlays, net (discretionary and mandatory)	$ 850,309	$ 895,166

Note 1.	Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Defense Logistics Agency (DLA) General Fund (GF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of DLA in accordance with and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which DLA is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

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

The DoD currently has 13 auditor identified material weaknesses. Of these, DLA has the following: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounting Entries; and (4) Intragovernmental Eliminations.

1.B. Mission of the Reporting Entity

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

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

1.C. Appropriations and Funds

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

The Operation and Maintenance (O&M) appropriation finances Other Logistics Services and Programs and Environmental Programs. DLA O&M includes multiple programs associated with DLA logistics mission as well as Departmental and Congressionally added programs. The DLA is either the executive agent responsible for program oversight and policy guidance or the budget administrator responsible for administrative support for these programs.
The Family Housing appropriation finances the routine operations, maintenance, and construction improvements of 140 military family housing units. Routine operation and maintenance includes management costs, utility costs and cyclical maintenance such as painting and renovations.

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

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

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

1.D. Basis of Accounting

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

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

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

1.E. Revenues and Other Financing Sources

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

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

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

1.H. Transactions with Foreign Governments/International Organizations

Not Applicable to DLA GF.

1.I. Funds with the U.S. Treasury

The DLA's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of DLA's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account. On a monthly basis, DLA's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Not Applicable to DLA GF.

1.K. Accounts Receivable

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

1.L. Direct Loans and Loan Guarantees

Not Applicable to DLA GF.

1.M. Inventories and Related Property

Not Applicable to DLA GF.

1.N. Investments in U.S. Treasury Securities

Not Applicable to DLA GF.

1.O. General Property, Plant and Equipment

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

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

1.P. Advances and Prepayments

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

1.Q. Leases

Not Applicable to DLA GF.

1.R. Other Assets

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

1.S. Contingencies and Other Liabilities

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The DLA's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as vehicle accidents, property or environmental damages, and contract disputes. Other liabilities also arise as a result of anticipated disposal costs for DLA's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, non-environmental disposal liabilities are recognized when management decides to dispose of an asset.

1.T. Accrued Leave

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

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.
Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

Not Applicable to DLA GF.

1.W. Undistributed Disbursements and Collections

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

Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the DLA's Accounts Payable and Receivable trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Not Applicable to DLA GF.

1.Y. Military Retirement and Other Federal Employment Benefits

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

1.Z. Significant Events

There are no disclosures required for DLA GF this reporting period.

Note 2. Nonentity Assets

As of September 30	2015	2014
(Amounts in thousands)		
Intragovernmental Assets		
Fund Balance with Treasury	$ (1)	$ 0
Total Intragovernmental Assets	$ (1)	$ 0
Total Nonentity Assets	$ (1)	$ 0
Total Entity Assets	$ 2,564,563	$ 2,328,848
Total Assets	$ 2,564,562	$ 2,328,848

Nonentity assets are not available for the use in DLA's normal operations. DLA has stewardship accountability and reporting responsibility for nonentity assets.

Note 3. Fund Balance with Treasury

As of September 30	2015	2014
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,469,172	$ 1,402,995
Total Fund Balances	$ 1,469,172	$ 1,402,995
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 0	$ 0
Fund Balance per Agency	1,469,172	1,402,995
Reconciling Amount	$ (1,469,172)	$ (1,402,995)

The DLA GF shows a $1,469,174,460.31 reconciling net difference with the United States (U.S.) Treasury. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include DLA, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the U.S. Treasury does not separately report an amount for DLA and, therefore, the entire DLA's FBWT amount is reflected as a reconciling amount.

Status of Fund Balance with Treasury

As of September 30		2015		2014
(Amounts in thousands)				
Unobligated Balance				
Available	$	362,030	$	473,121
Unavailable		80,715		49,800
Obligated Balance not yet Disbursed	$	1,065,508	$	909,812
NonFBWT Budgetary Accounts	$	(39,081)	$	(29,738)
Total	$	1,469,172	$	1,402,995

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

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

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

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

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

Note 4.	Investments and Related Interest

This note is not applicable to the GF.

Note 5.	Accounts Receivable

As of September 30	2015		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Amounts in thousands)			
Intragovernmental Receivables	$ 10,157	N/A	$ 10,157
Nonfederal Receivables (From the Public)	$ 11	$ 0	$ 11
Total Accounts Receivable	$ 10,168	$ 0	$ 10,168

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

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

Note 6. Other Assets

As of September 30	2015	2014
(Amounts in thousands)		
Nonfederal Other Assets		
Advances and Prepayments	$ 2,103	$ 213
Other Assets (With the Public)	3	3
Total Nonfederal Other Assets	$ 2,106	$ 216
Total Other Assets	$ 2,106	$ 216

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

Note 7. Cash and Other Monetary Assets

This note is not applicable to the GF.

Note 8. Direct Loan and Loan Guarantees

This note is not applicable to the GF.

Note 9. Inventory and Related Property

This note is not applicable to the GF.

Note 10.	General PP&E, Net

As of September 30	2015				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Software	S/L	2-5 Or 10	128,803	(25,248)	103,555
Construction-in-Progress	N/A	N/A	979,561	N/A	979,561
Total General PP&E			$ 1,108,364	$ (25,248)	$ 1,083,116

As of September 30	2014				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Software	S/L	2-5 Or 10	56,373	0	56,373
Construction-in-Progress	N/A	N/A	860,873	N/A	860,873
Total General PP&E			$ 917,246	$ 0	$ 917,246

Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

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

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2015		2014
(Amounts in thousands)				
Intragovernmental Liabilities				
Other	$	2,283	$	3,034
Total Intragovernmental Liabilities	$	2,283	$	3,034
Nonfederal Liabilities				
Accounts Payable	$	9,051	$	6,527
Military Retirement and Other Federal Employment Benefits		4,839		5,527
Environmental and Disposal Liabilities		142,363		262,221
Other Liabilities		1,790		1,815
Total Nonfederal Liabilities	$	158,043	$	276,090
Total Liabilities Not Covered by Budgetary Resources	$	160,326	$	279,124
Total Liabilities Covered by Budgetary Resources	$	66,764	$	55,032
Total Liabilities	$	227,090	$	334,156

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

Composition of Other Lines

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

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

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of FECA benefits for $4.8 million.

Note 12. Accounts Payable

As of September 30	2015		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 8,845	$ N/A	$ 8,845
Nonfederal Payables (to the Public)	41,560	4	41,564
Total	$ 50,405	$ 4	$ 50,409

As of September 30	2014		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 21,311	$ N/A	$ 21,311
Nonfederal Payables (to the Public)	8,861	0	8,861
Total	$ 30,172	$ 0	$ 30,172

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

Note 13. Debt

This note is not applicable to the DLA GF.

Note 14. Environmental and Disposal Liabilities

As of September 30	2015	2014
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 117,538	$ 249,257
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	453	422
Base Realignment and Closure Installations		
Installation Restoration Program	47,990	41,630
Total Environmental Liabilities	$ 165,981	$ 291,309

The DLA Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the DERA and BRAC funded environmental restoration programs, and (2) anticipated future cost to complete (CTC) environmental restoration requirements at DLA's environmental sites. In FY 2015, DLA utilized Version 11.2 of the Remedial Action Cost Engineering and Requirements (RACER) software to generate the FY 2016 CTC estimates of anticipated future costs. Cost estimates were generated for 75 Defense Environmental Restoration Program (DERP) sites, one Non-BRAC Corrective Action site, and one BRAC site.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

The DLA is responsible for clean-up requirements of DERP-eligible sites at Active Installation Restoration Programs (IRP), BRAC Installations, and Military Munition Response Programs (MMRP). All clean-up is conducted in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER software, an independently validated software application, to estimate future environmental costs. The RACER Steering Committee ensures that the software is Validated, Verified, and Accredited (VV&A) in accordance with Department of Defense (DoD) Instruction 5000.61. Additionally, DLA utilizes historical user-defined costs to estimate future environmental costs.

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

The primary change in site-level estimates from the previous CTC occurred in the FY 2016 CTC and can be primarily attributed to the decrease in Active IRP sites due to the removal of DLA Installation Support at Sharpe sites from the CTC in response to the transfer of the installation to the U.S. Army. Year-to-year fluctuations in DLA's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The latest version of RACER was used to prepare the estimates.

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

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

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

Additionally, in FY 2015, DLA developed and implemented an EL Site Identification (ID) process that reviews the Agency's Environmental Event Repository and evaluates each event for EL potentiality for use in the annual CTC and EL financial reporting. During the FY 2015 Site ID Process, the sites identified in the table below were identified as Potential ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. These sites will be re-evaluated during the next Site ID process to determine if any changes have taken place and sufficient information/data are available to create an estimate that would be included in the General Fund EL.

DLA General Fund Potential EL Sites:

Support Office	Site Name	Category	Comments
Battle Creek	Dickinson, Melbourne, Florida	Potential EL	These sites remain as Potential EL sites until otherwise determined by DLA Legal.
Battle Creek	Pebble Beach, Inyokern, California	Potential EL	
Battle Creek	Banaire Enterprises, Cabazon, California	Potential EL	
Battle Creek	North Salt Lake Hazmat	Potential EL	
Battle Creek	Pasco Landfill	Potential EL	

Note 15. Other Liabilities

As of September 30	2015		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 118	$ 494	$ 612
Employer Contribution and Payroll Taxes Payable	260	0	260
Other Liabilities	1,679	0	1,679
Total Intragovernmental Other Liabilities	$ 2,057	$ 494	$ 2,551
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 615	$ 0	$ 615
Accrued Unfunded Annual Leave	1,790	0	1,790
Contract Holdbacks	796	0	796
Employer Contribution and Payroll Taxes Payable	109	0	109
Total Nonfederal Other Liabilities	$ 3,310	$ 0	$ 3,310
Total Other Liabilities	$ 5,367	$ 494	$ 5,861

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

Note 16. Commitments and Contingencies

There are no disclosures required for DLA GF this reporting period.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 4,839	$ 0	$ 4,839
Total Other Benefits	$ 4,839	$ 0	$ 4,839
Total Military Retirement and Other Federal Employment Benefits:	$ 4,839	$ 0	$ 4,839

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2015 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year U.S. Treasury notes and bonds.

Interest rate assumptions utilized for discounting are as follows:

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

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2015 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2016	2.17%	3.76%
2017	2.13%	3.86%
2018	2.23%	3.90%
2019	2.30%	3.90% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2015 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2015 projection to the average pattern for the projections of the most recent three years.

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

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

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

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

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2015	2014
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 309,400	$ 322,756
Nonfederal Cost	418	111,350
Total Cost	$ 309,818	$ 434,106
Earned Revenue		
Intragovernmental Revenue	$ (50,286)	$ (37,844)
Nonfederal Revenue	(901)	(15)
Total Revenue	$ (51,187)	$ (37,859)
Total Net Cost	$ 258,631	$ 396,247
Procurement		
Gross Cost		
Intragovernmental Cost	$ 3	$ 811
Nonfederal Cost	9,584	12,472
Total Cost	$ 9,587	$ 13,283
Total Net Cost	$ 9,587	$ 13,283
Research, Development, Test & Evaluation		
Gross Cost		
Intragovernmental Cost	$ 22,510	$ 26,125
Nonfederal Cost	166,318	142,045
Total Cost	$ 188,828	$ 168,170
Earned Revenue		

Intragovernmental Revenue	$ (26,765)	$ (12,659)
Nonfederal Revenue	(932)	(685)
Total Revenue	$ (27,697)	$ (13,344)
Total Net Cost	$ 161,131	$ 154,826

Family Housing & Military Construction		
Gross Cost		
Intragovernmental Cost	$ 12,238	$ 12,309
Nonfederal Cost	(95,545)	(12,995)
Total Cost	$ (83,307)	$ (686)
Total Net Cost	$ (83,307)	$ (686)

Gross Cost		
Intragovernmental Cost	$ 344,151	$ 362,001
Nonfederal Cost	80,775	252,872
Total Cost	$ 424,926	$ 614,873
Earned Revenue		
Intragovernmental Revenue	$ (77,051)	$ (50,503)
Nonfederal Revenue	(1,833)	(700)
Total Revenue	$ (78,884)	$ (51,203)
Total Net Cost	$ 346,042	$ 563,670

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act.

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

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

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

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

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2015.

The Department complies with SFAAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates".

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

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

Year Ended September 30, 2015 Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Dollars in Millions
		Total
Appropriations, Statement of Budgetary Resources	$	911.1
Appropriations Received, Statement of Changes in Net Position		863.3
Total Reconciling Amount	$	47.8
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions (DERA/Drug Program)	$	47.8
Total Reconciling Items	$	47.8

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2015	2014
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,025,958	$ 890,195

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

($ millions)	Category A	Category B	Totals
Direct Obligations Incurred	$454,472,854	$592,626,342	$1,047,099,196
Reimbursable Obligations Incurred	$21,050,670	$58,861,393	$79,912,062
Obligations Exempt From Apportionment	-	-	-
Total	$475,523,524	$651,487,735	$1,127,011,258

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

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30		2015		2014
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	1,126,986	$	1,100,690
Less: Spending authority from offsetting collections and recoveries (-)		(130,321)		(103,484)
Obligations net of offsetting collections and recoveries	$	996,665	$	997,206
Net obligations	$	996,665	$	997,206
Other Resources:				
Donations and forfeitures of property		0		3
Transfers in/out without reimbursement (+/-)		(230,352)		(202,488)
Imputed financing from costs absorbed by others		2,687		3,212
Other (+/-)		1		1
Net other resources used to finance activities	$	(227,664)	$	(199,272)
Total resources used to finance activities	$	769,001	$	797,934
Resources Used to Finance Items not Part of the Net Cost of Operations:				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
Undelivered Orders (-)	$	(135,762)	$	(133,782)
Unfilled Customer Orders		2,889		23,927
Resources that fund expenses recognized in prior Periods (-)		(133,051)		(252,003)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0		0
Other (+/-)		230,351		202,485
Total resources used to finance items not part of the Net Cost of Operations	$	(35,573)	$	(159,373)
Total resources used to finance the Net Cost of Operations	$	733,428	$	638,561

As of September 30		2015		2014
(Amounts in thousands)				
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in environmental and disposal liability	$	6,360	$	0
Other (+/-)		2,422		249,756
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	8,782	$	249,756
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	27,894	$	0
Revaluation of assets or liabilities (+/-)		0		169
Other (+/-)				
Trust Fund Exchange Revenue		0		0
Cost of Goods Sold		0		0
Operating Material and Supplies Used		0		0
Other		(424,062)		(324,816)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	(396,168)	$	(324,647)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	(387,386)	$	(74,891)
Net Cost of Operations	$	346,042	$	563,670

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

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

DLA adjusted the note schedule in the amount of (18,081.69) to bring it into balance with the Statement of Net Cost. Report the adjustment in one of three categories: Resources That Finance the Acquisition of Assets, Other Components Not Requiring of Generating Resource, or Revaluation of Assets or Liabilities

The Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intra agency budgetary transactions are not eliminated:

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

Composition of Other Lines

Resources Used to Finance Items not part of Net Cost of Operations: Other consists of Financing Sources Transferred out Without Reimbursement for Military Construction (MILCON) appropriation pertaining to Construction-In-Progress (CIP).

Components Requiring or Generating Resources in Future Period: Other consists of DLA RDT&E establishing cancelled Payables.

Components not Requiring or Generating Resources: Other consists of RDT&E DEBS Assets recorded for financial statement reporting and accountability. Other consists of MILCON adjustments required to remove gains/losses erroneously associated with CIP.

Note 22. Disclosures Related to Incidental Custodial Collections

This note is not applicable to the DLA GF.

Note 23. Funds from Dedicated Collections

This note is not applicable to the DLA GF.

Note 24. Fiduciary Activities

This note is not applicable to the DLA GF.

Note 25. Other Disclosures

This note is not applicable to the DLA GF.

Note 26. Restatements

This note is not applicable to the DLA GF.

INITIATIVES AND ACCOMPLISHMENTS

INITIATIVES AND ACCOMPLISHMENTS FOR FY 2015

DLA Whole of Government Strategy: Initiated by a highly successful Value-Added Opportunities Summit, that saw the Agency host and detail its expansive logistics capabilities, to a diverse group of Federal Government and key humanitarian organizations, DLA launched its Whole of Government (WOG) support strategy. The WOG strategy advances a structured support model and process that "smartly" advocates DLA's core competencies, particularly to our Defense Support of Civil Authorities partners, while ensuring Warfighter support remains sacrosanct. An example of the WOG strategy in action is our recent enhanced collaboration with the Federal Emergency Management Agency (FEMA). DLA partnered with FEMA to develop 13 pre-scripted mission assignments that exploit our industry connections and ability to effectively source items as varied as fuel, bottled water, and commercial shelf-stable meals. In addition, the Agency also began a new partnership with the U.S. Forest Service-led Wildland Fire Protection Program (WFPP). DLA assumed logistics program management of the WFPP with the reassignment of 303 line items from the General Services Administration. Support includes, but is not limited to providing subsistence, clothing and textiles, construction and equipment, and industrial hardware materiel to the 5 primary federal wildland fire protection agencies, 50 states, and over 4,000 municipal fire departments. Support includes, but is not limited to providing subsistence, clothing and textiles, construction and equipment, and industrial hardware materiel to the 5 primary federal wildland fire protection agencies, 50 states, and over 4,000 municipal fire departments.

DLA Improving Support to Coalition Partners: DLA continues to identify and implement new processes to improve overall DOD support to our Foreign Military Sales (FMS)/Security Cooperation customers. For 2014, DLA supported 112 FMS countries by shipping ~367K lines of FMS items from DLA Depots. Value of goods shipped total $3.5B. DLA conducted intensive management of FMS backorders (BOs) which resulted in a significant reduction in total and aged BOs, a 26% reduction in total BOs and 32% reduction in aged (>2 years old) BOs, respectively. In addition, DLA provides consolidation support for high priority equipment (e.g. MRAP and M1A1) in support of COCOM requirements, primarily supporting CENTCOM requirements in Iraq and Afghanistan, shipping over 1,100 lines representing 13.3K parts through 50 air pallets and 50 DHL packs. DLA continues to strengthen our partnership with USTRANSCOM, jointly developing a combined distribution services and end-to-end transportation solution as a potential alternative to traditional freight forwarding solutions. To date, the DLA/USTRANSCOM distribution services initiative has shipped 82 containers in support of the Greek Hellenic Army and Air Force, received 150 lines and shipped 15 to fill Romanian F-16 requisitions and supported Afghanistan by shipping 21,661 lines through 472 containers and 403 air pallets.

Chemical/Hazardous Item Management: DLA J3, DLA J6 and DLA Installation - Environmental continue to implement the Hazardous Material Management System (HMMS). By September 2015, DLA will assume responsibility for managing the HMMS program, transferred from the US Air Force, which will support DLA and other Military Service/Federal

Agency customers. This initiative bolsters DLA's position as a DoD leader in the realm of chemical and hazardous inventory management.

Navy Forward Deployed Hazardous Material Support: In response to our Naval Air Forces customer initiative to reduce aircraft carrier (CVN) hangar bay 3 (HB3) footprint, DLA forward positioned several hazardous material (HAZMAT) items at DLA Depots in Bahrain and Yokosuka. The goal is to forward position the high demand items and make them available in theater to accommodate the CVN deploying with less HAZMAT onboard. Continuous efforts to track and support these HAZMAT items have ensured positive readiness sustainment for the CVNs.

Customer Engagement Strategy (CES) Program Review. An Integrated Process Team (IPT) composed of DLA HQs and PLFA CES Action Officers conducted a complete review of the CES Program. IPT actions and proposed changes were presented at an Alignment Group and approved by DLA's senior leadership. These included updating the CES Portal and streamlining the processing steps to document strategic external customer engagements. Train-the-trainer events were conducted and PLFAs leaned forward with their site specific training. A Fragmentary Order outlining the Alignment Group senior leader approval guidance was released by RADM Griffith in early November as interim governance awaiting the CES DLAI review and update. The CES DLAI 3000.01 was updated with the senior leader approved changes and submitted in TMT for enterprise review.

Operation United Assistance (OUA). DLA began pro-active coordination with U.S. Africa Command (AFRICOM) on September 16, 2014 when President Obama announced his intent to send humanitarian aid and support to counter the exponential growth of the Ebola virus in Africa. The DLA Europe/Africa (DLA-E/A) commander deployed as part of the USAFRICOM site survey team sent to the country of Liberia. DLA expanded that initial presence to form DLA Support Team - Operation United Assistance (DST-OUA). DST-OUA immediately began coordinating with the U.S. Agency for International Development (USAID) to facilitate logistics support for AFRICOM's Joint Forces Command-United Assistance (JFC-UA). DST-OUA provided the primary source of both tactical and operational level logistics capabilities in the region for the first sixty days of the operation.

DLA's OUA mission, to provide responsive logistics capabilities to AFRICOM for foreign humanitarian assistance / disaster relief operations in support of OUA, was developed from comprehensive collaborative efforts led by the DLA J3's Logistics Operations Directorate. The J3 team provided overarching guidance and managed senior leader engagements. The Joint Logistics Operations Center (JLOC) served as the Agency focal point for daily coordination and information management that included multiple forums and the publication of a DLA Execute Order with 13 subsequent Modifications. DLA-E/A linked the Agency to planning conducted at the operational level by the Combatant Command and Service Components, while providing direct oversight of DST-OUA's coordination with JFC-UA in Liberia. DLA-TRANSCOM's thorough understanding of supply and distribution routes proved to be critical in adding flexibility and innovation to logistical options for support to OUA.

The DLA J3 team directly influenced AFRICOM's concept of support for commodities and logistics services, which enabled JFC-UA's mission to support USAID and the Government of Liberia. Despite a rapidly evolving operating environment with a complex interagency hierarchy, degraded infrastructure, and daily challenges with ground lines of communication, DLA successfully supported nearly 60% (17 of 29) of the urgent USAID Mission Tasks assigned to the Department of Defense. In addition, DLA contracted the MV VEGA for inter-theater sea movement of materiel from Europe to Africa. The MV VEGA supported essential lifesaving and humanitarian operations by transporting 690 priority containers of construction material, subsistence, fuel containers, force provider sets, material handling equipment, and medical supplies from the Netherlands to ports in Liberia and Senegal. DLA support, included $98.1M in total goods and $9.1M of logistics services.

Sales by Classes of Supply			
Class I Sales		$	16,573,213
Class II Sales		$	4,488,130
Class III Sales		$	24,165,558
Class IV Sales		$	32,661,074
Class VIII Sales		$	17,663,589
Class IX Sales		$	2,576,943
($ in millions)	Total	$	98,128,507

Costs of Services Provided			
Troop Support		$	117,584
Energy		$	482,597
Distribution		$	7,583,024
Disposition		$	441,721
Contracting Support		$	389,044
Command and Control		$	113,263
($in millions)	Total	$	9,127,233

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

Retail Operations Division: J342 Retail Operations Division was established 1 April 2015 to serve as process owner and integrator of all DLA Retail Industrial Activities. Its mission is to develop, disseminate, and monitor DLA policies and coordinate process changes, procedures, and other guidance related to retail support for industrial customers. J342's vision is to develop and institutionalize an evolving culture of urgency within the DLA Enterprise and to ensure horizontal and vertical alignment in achieving End-to-End (E2E) Supply Chain Integration (SCI) of retail SS&D functions of industrial operations. Current accomplishments and milestones include implementation of DLA Retail Supply Chain Material Management Policy (DLAI 4140.08) 11 March 2015 and DLA Retail Supply Chain Material Management Procedures: Air Force (AF) Supply, Storage and Distribution (DLAM 4140.08-V1) September 2015. J342 is pursuing stabilization in Inventory Management Stock Positioning (IMSP) Spiral 2 Fleet Readiness Centers with focus on Local Stock Number/Purchase, Organic Manufacturing, Service Managed Items, Blocked Stock, and Receipts. In addition, working with the Marine Corps to provide wholesale stock material at DDAG and DDBC to reduce Customer Wait Time and improve readiness for Marine Depot Maintenance Command (MDMC).

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

Special Operations Forces National Account Manager- The SOF NAM stood up operation in August 2014. The Section consists of a 4 - person support team with two Staff Officers in the MSS Division, one LNO at SOCOM HQ and one LNO at JSOC HQ. We are able to touch all major SOCOM customers through our Service NAM and PLFA Customer Support Representative network. SOCOM has some unique characteristics which is different from other customers because they are a COCOM with Service, Military and Defense Agency - like responsibilities. DLA is providing expanded logistic support for missions typically out-sourced to commercial providers

- Relationships are a significant part of the SOF culture and proper TS-SCI clearance provides access to contribute to mission planning sessions. The SOF NAM Customer base is global and includes SOCOM AT&L in Tampa, five Components and seven T-SOCs. The SOF Customer is very interdependent with many of our Government's Agencies and Departments. We put equal weight, in coordination with the Federal NAM team, to mature those relationships. Every 06 level Logistics Officer (Mil and Civilian) in these organizations knows about the SOF NAM Section and has 24hr contact access to the SOF NAM Team.

- Relationship building and Strategic communications has been a big part of the SOF NAM strategy to highlight and educate the SOF customer on DLA capabilities and systems. Much of this essential to future financial improvement and audit readiness

- Developed SOF specific information brief that focuses on DLA capabilities. It includes ways the SOF customer can reach into the DLA support network during mission planning and execution.
- We presented this briefing during six major logistics meetings at SOCOM HQ and Component Commands in over the past seven months and are now a standard participant at many key SOF Log annual conferences and summits.
- We will perform Lead Member functions while hosting a DLA booth at the SOCOM's Annual Industry Symposium in May and USASOCs Equipping Symposium in June

- Developed and constantly update a SOF Playbook - unclassified interlink site where the SOF Customer can pull down useful self-help info: https://intelshare.intelink.gov/sites/dlafpfuops/ssc/SitePages/Home.aspx
- Developed a DLA chapter for input to the new SOCOM J4 "SOF Log Handbook" that will be published in fall 2015
- Developed a DLA briefing module to be added to the future SOCOM J4 – Unconventional SOF Log Course
- Developed a DLA briefing module for the SOCOM J4 and Joint Special Operations University (JSOU), Nonstandard Logistics Course
- Organized the first SOCOM / DLA day, Nov 2015. Well attended by key SOCOM Staff, Components and T-SOCs. Outcome - drove three major DLA key enabler initiatives:

    - Develop a SOF Playbook – products and "how to" fact sheets via a interlink site
    - Ensure DLA has a Customer network to reach out and support the SOF Customer
    - Develop a plan to source and deploy JCASO Contract Officers to SOC-AFRICOM and SOCPAC

- **Program Management and Planning for Syria Train & Equip**
    - This is first time that DLA is acting in a direct support role as a key log partner for a major SOCOM program. The SOF NAM team led several capabilities briefs in January with SOCOM leaders that started our partner role.
    - Since March the SOF NAM has provided daily program management of DLA support that includes all tasks related to mission planning and execution. Held daily meetings with the SOCOM T&E program leadership, the CJIATF staff in Qatar, followed by numerous sync telecons with DLA supply chain managers throughout the week to drive performance and plan lead time tasks.
    - Coordinated rapid acquisition strategies with DLA and Service item managers to source 600+ items worth ~$15m. Material availability is exceeding all SOCOM mission requirements.

        - Was able to source some items, like the JPAD 2K a $35,000 system that had a 6-8 month PLT but we were able to get 54 complete systems it in weeks by working with key stakeholders to cross level reset assets that were under PM Natick control.

- Through a strategy of demonstrated performance at Ft Campbell, KY, we will be able to shift our Distribution mission support to DDSP for Tranche 2 where we established a Total Package Facility to organize material by weapon system and kit material based on SOCOM call forward instructions
- DLA will be will postured to continue our support for this program when it transfers to Defense Security Cooperation Agency (DSCA) control in 2016

- **Planning**
  - In coordination with the DLA JLOC, contribute to the new, SOCOM Campaign Plan – Global Special Operations (7000-4) strategy meetings. Provided input that included key DLA enabler capabilities that are part of the Logistics Annex and we just started planning with the seven T-SOC's on specific CONPLANS.
  - In January attended the Logistics/Accountability Working Group hosted by the Naval Special Warfare (N4). This was the first time a DLA Rep was invited to brief during this annual logistics meeting. Worked several strategy sessions that identified DLA resources to directly support WARCOM units. From there we tied in DLA Theater commanders and planners from the PLFA to support numerous mission planning conference's

- **Mission Support**
  - DLA continues excellent support to 0300 plan JSOC missions
  - 50% SOF NAM section will deploy in 2015 in support of DLA's Civilian Expeditionary Workforce requirements: Deb Whitley – CJIAFT-S LNO, (10 Jan) and Tom Palmer, Kuwait (05 May)
  - C27J Initiate an Integrated Process Team (IPT): The idea for this IPT came directly from a DLA mission update brief we provided to USASOC Components in February. We now have an IPT to develop a common support strategy for the C27J aircraft. The IPT includes USASOC, DLA Aviation, Federal NAM and USCG. The second IPT meeting is on 23 April.
  - One of the biggest sustainment challenges facing USASOC is parachute systems. The transition of several systems over the past two years from PM management to DLA sustainment contracts left a gap in support. On 06 May the SOF NAM is hosting a DLA supply chain IPT strategy meeting in Richmond to work parachute back order management. The IPT consists of USASOC, PM – Cargo Aerial Delivery, DLA Avn and L&M. In June the same DLA team will be brief all USASOC Riggers at the next maintenance readiness brief (MRB). Brief will focus on parachute management, supply discipline and sustainment strategies.
  - To start a proactive strategy on all SOCOM back orders we met with J34 and J63 to leverage Fusion and DLAs SMEs to manage this issue. We've started to input baseline SOCOM Component data and will join existing DLA meetings to pay attention to increase performance for SOF units.
  - Held several meetings with SOCOM J4 team to highlight FIAR initiatives and assist the J34 and J8 with operationalizing business process changes that effect support to SOF

- **Support for Syria T&E** is becoming a catalyst to expand material support for other SOCOM missions and business areas.
    - SOCOM is now moving forward with additional DLA Program Support for Special Operations Support Activity (SOFSA) - SOCOM's Inventory Control Pt, Lexington, KY. We are working a joint plan to implement DSS at Lexington in FY 2016.
    - DSS will manage storage and distribution (S&D) of SOF - Peculiar (H9D) wholesale inventory. This is a cost neutral proposition for DLA (fee for service program design) and it gives SOCOM an Accountable Property System of Record (APSR) certified system at SOFSA for item management.

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

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

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

- **Federal Logistics Information System (FLIS):** FLIS on the World Wide Web (WebFLIS) 2.0 was released on June 16, 2015. As part of an application consolidation effort, the functionality from redundant systems was incorporated into the latest version of WebFLIS allowing us to reduce our application footprint. WebFLIS 2.0 includes its previous capability to search by National Stock Number (NSN), National Item Identification Number (NIIN) and Reference Number as well as adding the capability to search by characteristic keywords, the ability to query NIIN history and query functionality for Bill of Materials.

  In addition, this upgrade segregated public and restricted sectors and imposed requirements for individual user authentication making WebFLIS 2.0 Cyber Command Task Order 12-0371 compliant. At the end of July, WebFLIS 2.0 already had over 16,000 registered users, far surpassing the 3,500 registered users for its predecessor applications. Upon the release of WebFLIS 2.0, we decommissioned Public WebFLIS which required no user authentication. The Federal Item X-Reference application was also sunset with the release of WebFLIS 2.0. Users without a Common Access Card (CAC) will now use the Public Logistics Data (PUB LOG) FLIS Search capability for access. These changes deliver capability to the DLA and DoD user and address security concerns. We plan future releases of WebFLIS to incorporate additional requirements identified by the user community to include select requirements identified in the Matching Acquisition Strategies with Industry Capabilities (MASIC) R&D effort.

- **Enterprise Segregation of Duties (ESoD):** Enterprise Segregation of Duties (ESoD) is a principle of job design where key business activities and responsibilities are divided or segregated among different employees to reduce the risk of error and/or fraud, across the Enterprise. Some users have excess system access and privileges, which violate the principle of SoD. SoD violations create an environment for fraudulent behavior by providing means and access.

  All DLA Enterprise Systems including DoD business systems must be audit compliant; currently, all DLA Systems do not have a standard automated solution to identify Segregation of Duties (SoD) violations. As part of the DLA-wide audit readiness effort, an enterprise need was identified to standardize access control processes for DLA systems, with a specific focus on minimizing violations to the segregation of duties principle, and providing an audit trail when violations do exist. J62 Program Executive Office has a requirement to ensure all DLA and DoD Systems across the Enterprise adhere to the Audit mandate to have clean audit opinions to pass Federal Information System Controls Audit Manual (FISCAM) and Internal Controls – A-123 audits.

The first two increments of the SoD initiative involved the implementation of the SAP GRC onto the EBS. The EBS implementation focused on the Finance (FI), Order Fulfillment (OF), and Procurement (PR) process areas and followed a phase acquisition strategy, which included two increments and two releases:

- Increment 1 - *Phase 1*
  - Implement SAP GRC and Greenlight Technologies to monitor Enterprise SoD risks for SAP systems (ECC, CRM, SRM, and APO) and JDA/Manugistics
  - Determine the System Access Profiles that have excess system access and privileges
  - Establish enterprise access control processes and procedures
  - Create standard job redesign approach for mitigating SoD violations

- Increment 1 - *Phase 1.1*
  - Evaluate Portfolio Management (PfM) System Access Profiles for SoD Violations
  - Redesign and clean-up SoD violations in Portfolio Management (PfM) System Access Profiles
  - Implement Firefighter Roles for Portfolio Management (PfM) Users
  - Transition Portfolio Management (PfM) users to new System Access and Firefighter Roles

- Increment 2
  - SoD/AMV Increment 2 built on the initial install of SAP GRC by implementing new Production access for EBS End Users across the enterprise.
  - End User system access is evaluated for SoD violations, and then redesigned to ensure users have the access necessary to perform their day-to-day jobs, while remaining auditable.
  - Created new End User system access profiles in Production for FI, OF, and PR, as well as Emergency Access Management (EAM) or Firefighter (FF), roles where necessary.
  - Fifty additional risks will be configured in LaserFocus to use as a mitigation strategy to monitor SoD violations where tasks may not be able to be separated.

- The Release and Rollout summary schedule for SoD within EBS was as follows:
  - Release 1 (April 2015): 37 JD's released to FI, OF and PR
  - Release 2 (June 2015): 174 JD's released to FI, OF and PR

Increment 3 - The ESoD Team is focused on the following tasks:

- Verify DLA SoD Enterprise Rule Set is understood by the PMOs
- Work with PMOs to verify that all functions associated with their J-6 and user roles have been identified
- Determine if additional SoD conflicting functions exist based on the DLA SoD Enterprise Rule Set
- Verify that PMOs are actively managing user access to the manual role matrices and that all SoD conflicts are eliminated or have mitigating controls
- Verify that proper documentation exists to provide to a Controls Auditor on the 13 SoD Controls, SoD Rules, violations, and mitigation strategies
- Award ESoD Planning & Analysis Task Order to provide more technical rigor towards Enterprise SoD assistance and an automated SoD solution as appropriate based on system needs.
- Analyze remaining EBS Process Areas outside of OF, FI and PR, such as TQ, CRM and Real Property for SoD violations that will need new access profiles created.

- **Account Management and Provisioning System (AMPS):** Since its deployment in 2007, AMPS has continued to grow into an enterprise system supporting the entire DLA organization and is now being expanded in size and functionality to also support external customers such as the Defense Finance and Accounting Service (DFAS).

  AMPS' provides Identity Management (IDM) throughout the Identity lifecycle for systems and users using commercial off the shelf (COTS) software. To support integration/hosting of all DLA systems, the original COTS SUN IDM Version 8.1 was upgraded and replaced by a suite of Oracle COTS products configured to work together in a new version of AMPS called OIM AMPS. OIM AMPS includes Oracle Identity Management (OIM), Oracle Access Manager (OAM), Oracle Identity Analytics (OIA) and Business Intelligence Publisher (BIP).

  At a fundamental level, AMPS automates:
  - The system access approval process workflow task (i.e., the DD2875, vendor, and public user System Account Access Request (SAAR) processes);
  - Account access revalidations, expiries, and reporting tasks that are mandated by DoD regulation: i.e. DLA domain account annual revalidations;
  - Account provisioning to include creation, management, and deletion in the managed systems to save system administrator costs and achieve better reconciliation between approvals and actual accesses.

Additionally, AMPS:

- Enforces the system owner's business rules pertaining to Role Based Access Control (RBAC) and Separation of Duties (SoD) tasks; and
- Provides an internal auditable ticketing system when system administrators are required to provision system accounts and interfaces to ticketing systems such as DISA ITSM Remedy.

The rollout summary of AMPS is as follows:

- 15.1.0 (15-JAN-2015) Enhancements to functionality to expedite Legacy AMPS Sunset
- 15.1.2 (23-JAN-2015) Patch to fix AMPS Workflow issues.
- 15.1.3 (12-FEB-2015) Patch to improve AMPS Workflow issues & Legacy functionality.
- 15.1.5L (12-FEB-2015) Break Fix to Legacy AMPS Onboarding Pilot to make sure Reservists are getting the right account prefix.
  15.1.4 (12-MAR-2015) Patch to do interim bypass of IT3 approvals at Security Officer and IAO for DLA internal users only. Bug fixes and enhancements to the Role Manager Tool.
- 15.2.0 (23-JUN-2015) SOD/GRC Integration with AMPS.
- 15.2.1 (20-JUL-2015) Patch to fix various production SAARs not moving forward in the workflow. Data cleanup.
- 15.3.0 (Planned 01-SEP-2015) Release to current AMPS (OIM platform) the final workflow updates to finally sunset Legacy AMPS (SUN IDM platform).

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

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

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

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

Functional Executive Agent Medical Support (FEAMS) program - DLA Troop Support Medical, in coordination with Defense Health Agency and the Military Services continue to support development of the Medical Contingency Requirements Workflow (MCRW) tool under the FEAMS. The primary focus and major accomplishment in 2015 was developing and fielding MCRW Release 3. FEAMS worked with the Readiness Requirements Team (RRT) to enhance functionality for users to easily simulate war time scenarios and analyze various readiness metrics in order to evaluate the NSN-specific logistical requirements needed to support contingency shortfalls. Specifically, the MCRW system was improved by enabling means to maintain currency of existing Joint Task Time Treater (JTTT) data; providing users the ability to combine multiple MIE projects, analyze the resulting MIE to determine which Service assemblies contain needed NSNs, and analyze the logistical health of Service assemblages. Additionally, FEAMS integration team developed new custom reporting capabilities to evaluate and analyze Service shortfall requirements at various Roles of Care (ROC), display contract coverage for the selected materiel items, and examine procurability of the output Materiel Item Estimate (MIE) forecast data.

While developing MCRW R3, the R2 production software was utilized in operational planning by PACOM, NORTHCOM and the LOGWAR 15 exercise this fiscal year:

- MCRW participates in the monthly NORTHCOM Class VIII Work Group, which supports medical materiel forecasting for Defense Support of Civil Authorities (DSCA) events (earthquake and Chemical, Biological, Radiological and Nuclear (CBRN events)).

- Medical Planners utilized MCRW to generate medical materiel requirements in support of operational planning. Reports include materiel estimates, logistics sustainability analysis, transportation requirements (weight/pallet) estimates.

- MCRW, in conjunction with the Joint Staff, developed materiel estimates, weight, cube, DLA acquisition availability and Theater Lead Agent for Medical Materiel supportability for the Logistics War Game 15 (LOGWAR 15). [1]

- Prior to the USNS COMFORT's upcoming Humanitarian Assistance Mission, Continuing Promise 2015, the MCRW team identified NSN/MFR P/N/NDC, consolidated multiple department quantities, identified sourcing options, identified associated NSNs to terminal products, and identified medical materiel that required additional information to source. MCRW also provided pricing estimates for the mission, supporting budget exercises. As the USNS visits each country, the MCRW team is evaluating treatment data in order to provide a template for future mission support.

- MCRW team supported the DLA Medical Materiel Executive Agent, to provide Ebola medical materiel support for initial outfitting and resupply to Liberia. With Service-provided planning inputs including location, participating military forces and civilian population at risk MCRW was able to generate a preliminary materiel item estimate. Support included iterations based on population at risk (PAR) changes, in order to estimate scaled efforts. Additional clinical reviews and changes were conducted; materiel NSNs were updated to the latest recommendations from ASD Dr. Woodson. The revised treatment file provided a baseline of sourceable materiel to support Ebola planning exercises and execution.

    - The Service Medical Logistics Agencies continue to submit their "go-to-war" surge and sustainment requirements in the tool.

In FY 2016, MCRW Release 4 will focus on the logistics value added services that support warfighter planning and support and while minimizing friction in the medical supply chain.

- DLA Troop Support Medical continued to leverage the War stopper Program to meet the

[1] The purpose of LOGWAR is to improve the understanding of capabilities across the Joint Logistics Enterprise (JLEnt); provide a venue for realistic and credible logistics play in war games; and identify and explore long-term sustainment challenges. LOGWAR covered simultaneous OCONUS and CONUS events in 3 vignettes (Insurgency, Disease, and Retrograde Maintenance).

surge and sustainment requirements of the Military Services. Through utilization of War stopper funds, the DLA Troop Support Medical was able to gain immediate access to $300.0 million of critical medical materiel with a $24.0 million investment, approximately a 12 to 1 return on investment. This continuing program represents a very efficient and effective utilization of programmed funds.

- DLA Troop Support Medical, in coordination with Defense Health Agency and the Military Services, completed the OSD Cost Reduction Initiative. During the 2nd Quarter, 2015, the OSD Cost Reduction Team reduced total delivered costs by $269M, since the inception of the Initiative, exceeding the goal of $254 by $15M. Having exceeded its goal, the Team reported its joint achievement and transitioned its continuing cost reduction programs to the DHA/DLA Five-year Engagement Plan and the Better Buying Power 3.0.

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

  - DLA hosted an internally focused strategic dialogue between the DLA and DHA Directors on May 2014 seeking “Big Ideas” to engender a more integrated health care delivery system by embracing best practices and promoting sustained innovation.
  - DLA hosted an externally focused “Captains of Industry” Summit between the DHA, DoD Surgeons and Industry Partners on June 2014 socializing “five” high level medical cost reduction drivers. Financial analysis indicates the Class VIII Supply Chain will achieve an astounding $3.6 Billion cost reduction from FY 2015 - 2024 by negotiating substantially lower distribution fees with both Medical Surgical and Pharmacy Prime Vendors; exploiting the velocity of award of DoD National committed volume contracts, and benchmarking commercial pricing to facilitate improved medical standardization.

APPENDIX

Acronyms	
ACO	Accounting Cycle Offices
ACWA	Assembled Chemical Weapons Alternatives
ADPE	Automated Data Processing Equipment
AFR	Agency Financial Report
AFRICOM	African Command
ALC	Air Force Logistics
ALT	Acquisition Lead Time
AS	Application Security
AT&L	Acquisition, Technology, and Logistics
AWARS	Automated Workflow and Reporting System
BCT	Business Cycle Teams
BLSA	Base Level System Application
BOs	Backorders
BPC	Business Process Controls
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CBY	Chargeback Year
CCLI	Commerce Control List Items
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CES	Customer Engagement Strategy
CEW	Civilian Expeditionary Workforce
CMA	Chemical Materials Agency
COCOM	Combatant Command
CoFE	Center of Financial Excellence
COI	Captains of Industry
COLA	Cost of Living Adjustment
CONUS	Contiguous United States
CPI	Continuous Process Improvement
CPIM	Consumer Price Index Medical
CRM	Customer Relationship Management
CSRS	Civil Service Retirement System
CTC	Cost to Complete
CV4L	Commercial Venture 4 Liquidation
DAAS	Defense Automatic Addressing System
DAI	Defense Agency Initiative

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DMLSS - W	Defense Medical Logistics Standard Support Wholesale
DoD	Department of Defense
DoD EMALL	DOD Electronic Mall
DoDIG/DODIG	Department of Defense Inspector General
DON	Department of the Navy
DS AOP	Defense System Area of Probability
DSCR	Defense Supply System Richmond
DSS	Distribution Support System
DTIDS	Disposal Turn In Documents
DTS	Defense Travel System
DWCF	Defense Working Capital Fund
E2E	End to End
EAGLE	Employee Activity Guide for Labor Entry
EBCO	Enterprise Business Cycle Owner
EBS	Enterprise Business System
EC	Energy Convergence
EDA	Electronic Document Access
EDRT	Expeditionary Disposal Remediation Team
EMQ	Economic Movement Quantity
EOA	Enterprise Organizational Alignment
EPM	Enterprise Process Management
ER	Effectiveness Reviews
ERM	Enterprise Risk Management
ESoD	Enterprise Segregation of Duties
ESS	Expeditionary Site Set
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FCT	Functional Cycle Teams
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement Audit Report
FISCAM	Financial Information System Controls Audit Manual
FLIS	Federal Logistics Information System
FMD	Fuels Manager Defense
FMFIA	Federal Manages' Financial Integrity Act of 1982

FMS	Foreign Military Sales
FY	Fiscal Year
GF	General Fund
GOCO	Government Owned Contractor Operated
GPC	Government Purchase Card
GSA	General Service Administration
HAZMAT	Hazardous Material
HW	Hazardous Waste
ICOFR	Internal Control over Financial Reporting
ICOFS	Internal Control over Financial Systems
ICONO	Internal Control over Nonfinancial Reporting
IG	Inspector General
IMSP	Inventory Management and Stock Positioning
IMSP	Inventory Management Stock Positioning
iRAPT	Invoice, Receipt Acceptance and Property Transfer
IRP	Installation Restoration Program
JLOC	Joint Logistics Operations Center
JRIMM	Joint Environmental Materiel Management Service
LESO	Law Enforcement Support Office
LNO	Liaison Officer
LRT	Logistics Response Time
LSN	Local Stock Number
LTC	Long Term Contract
MA	Material Availability
MD&A	Management Discussion & Analysis
MDMC	Marine Depot Maintenance Command
MILCON	Military Construction
MMRP	Military Munitions Response Program
MRS	Military Retirement System
NFA	No Further Action
NGA	National Geospatial Intelligence Agency
NIIN	National Item Identification Number
NIMS	National Inventory Management Strategy
NOR	Net Operating Results
NSN	National Stock Number
O&M	Operation and Maintenance
O&M	Operations and Maintenance
OCONUS	Outside the Continental United States
OCORT	Overseas Contingency Operations Readiness Training

ODO	Other Defense Organization
OGC	Office of General Counsel
OMB	Office of Management and Budget
ONDCP	Office National Drug Control Policy
ORT	Order Response Time
OSD	Office of the Secretary of Defense
OUA	Operation United Assistance
OUSD	Office of the Under Secretary of Defense
OWCP	Office Workers' Compensation Programs
PDW	Procurement Defense Wide
PLFA	Primary Level Field Activity
POC	Point of Contact
PP&E	Property, Plant, and Equipment
PRV	Plant Replacement Value
PSL	Planned Stockade List
RACER	Remedial Action Cost Engineering and Requirements
RCP	Recycling Control Point
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Testing & Evaluation
ROI	Return on Investment
SA	Self-Assessment
SAMMS	Standard Automated Materiel Management Systems
SAP	Simplified Acquisition Procedure
SARA	Superfund Amendments and Reauthorization Act
SBR	Statement of Budgetary Resources
SCAs	Supply Chain Alliances
SCI	Supply Chain Integration
SCNP	Statement of Changes in Net Position
SES	Senior Executive Services
SFFAS	Statement of Federal Financial Accounting Standards
SITREP	Situational Report
SMCP	Shipboard Multipurpose Copier Program
SNO	Strategic Network Optimization
SOCOM	Special Operation Command
SOFNAM	Special Operation Forces National Account Manager
SRM	Supplier Relationship Management
SS&D	Supply, Storage, and Distribution
SSAs	Strategic Supplier Alliances
STORES	Subsistence Total Order and Receipt Electronic System

SV	Scrap Venture
SWG	Stewardship Working Group
TF	Transaction Fund
TI	Treasury Index
USACE	US Army Corps of Engineers
USAID	US Aid for International Development
USGAAP	US Generally Accepted Accounting Principle
USMC	United States Marine Corps
USPACOM	US Pacific Command
USTRANSCOM	US Transnational Communication
VV&A	Validated, Verified, and Accredited
WFPP	Wildland Fire Protection Program
WOG	Whole of Government

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