DEFENSE LOGISTICS AGENCY

ANNUAL FINANCIAL REPORT

FISCAL YEAR 2012 (UNAUDITED)

DEFENSE LOGISTICS AGENCY

DEFENSE WORKING CAPITAL FUND AND GENERAL FUND

FISCAL YEAR (FY) 2012 ANNUAL FINANCIAL REPORT

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MESSAGE FROM THE DIRECTOR
NOVEMBER 2012

The Defense Logistics Agency (DLA) is America's Combat Logistics Support Agency, providing effective and efficient worldwide support to Warfighters. In an era of declining resources, DLA will significantly improve performance while dramatically decreasing cost. Success in this endeavor will be all hands effort and require innovative thinking and relentless execution.

In support of the Department's new national defense strategy I introduced "DLA's Big Ideas" initiative to save $10 billion over the next five years. This strategy, known as "10 in 5", is enabled by five focus areas: improved customer service, decreased material costs; decreased operating costs; improved inventory management; and achieving audit readiness.

Our plan to decrease material costs will leverage best government and commercial practices and take advantage of existing commercial capabilities, such as performance-based logistics and tailored logistics support arrangements. Reductions in operating costs will be achieved by consolidating inventories, leveraging industry ability to store and deliver high-demand items and rightsizing out distribution footprint. DLA will improve its inventory management through faster procurement processes, better demand planning and collaborating with customers. Finally, DLA has accelerated the timeframe to achieve full audit readiness by September 30, 2015, two years in advance of the Department's goal.

We will continue to demonstrate to all our customers that as America's Combat Logistics Support Agency we are committed to enhancing logistics effectiveness and efficiency.

MARK HARNITCHEK
Vice Admiral, USN
Director

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DEFENSE LOGISTICS AGENCY

Consolidated Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2012 and 2011

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DESCRIPTION OF THE DEFENSE LOGISTICS AGENCY

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

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

Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution, enabling the reutilization or disposal of surplus military assets, managing the defense national stockpile of strategic materiel, providing catalogs and other logistics information, and document automation and production services. DLA manages the procurement of depot-level reparable and is re-invigorating the Performance Based Logistics (PBL) outcome based support strategy process having established a PBL Program Office during 2011. In addition, DLA supports U.S. allies and friends through Foreign Military Sales and is a vital player in providing humanitarian support at home and abroad.

Our FY 2012 initiatives are tied directly to enhancing mission support at the least possible cost by balancing effectiveness and efficiency to best meet warfighter's requirements in a period of increasing challenges and resource limitations.

DLA'S MISSION:

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

DLA'S VISION:

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

DLA'S VALUES:

Our values provide the foundation for all of our actions. They are our guiding principles as we accomplish our mission, pursue our vision, and strive to do what is right for the Armed Forces and DoD:

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

FIVE BIG IDEAS

In February 2012, we identified five principal strategic focus areas, or The "Five Big Ideas." They will provide the foundation for the DRAFT Strategic Plan for FY 2013-2020. They are:

- ***Improve Customer Service "Delight our Customers":*** Improve total service delivery by 10 "percentage points" and measure ourselves by customer standards.
- ***Decrease Direct Material Costs "Be Smart Buyers of the Right Stuff":*** Reduce all direct material costs by 10% in five years (2018).
- ***Decrease Operating Costs "Improve Process and Productivity":*** Reduce all operating costs by 10% in five years.
- ***Reduce Inventory "Clean out the Attic":*** Attack both War Reserves and Operational Inventory through better leverage of commercial infrastructure and agreements: review and adjust strategic requirements.
- ***Achieve Audit Readiness "Prove it":*** Demonstrate our commitment to transparency and accountability. Use audit readiness as a lever to identify and drive future improvement opportunities.

The Five Big Ideas allow the Agency to present $10.3 billion in savings to the Department per the chart below:

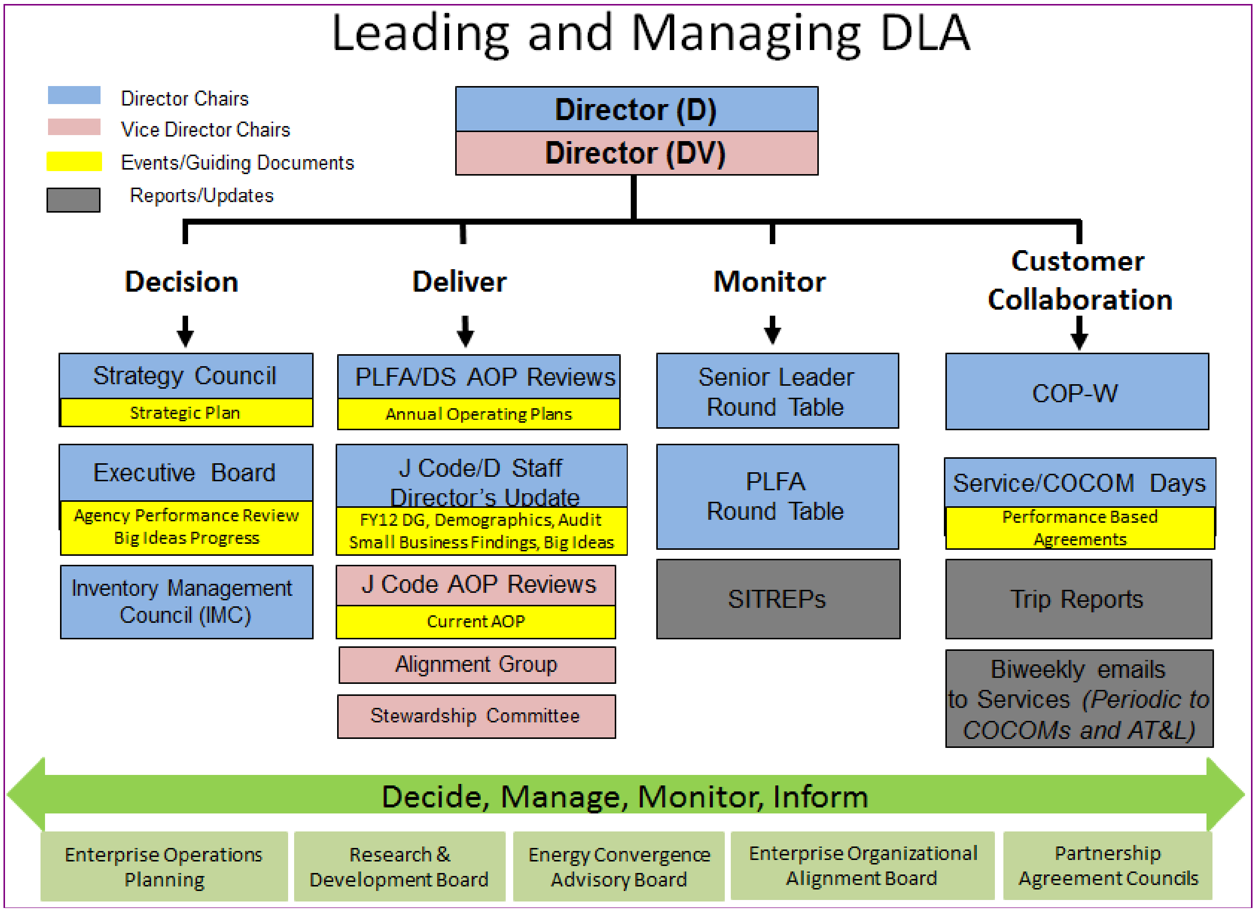
DLA "10 in 5"

	FY14	FY15	FY16	FY17	FY18	TOTALS
OSD-C Guidance (DLA Supply Chain Only)	**1%**	**2%**	**3%**	**4%**	**4%**	
PB 13 Efficiencies						
Operating Cost ($ Millions)	$ 120	$ 145	$ 171	$ 199	$ 199	$ 834
Material Cost ($ Millions)	416	629	850	735	735	3,365
Total	$ 536	$ 774	$ 1,021	$ 934	$ 934	$ 4,199
Additional Efficiences (DLA Supply Chain & Energy)	**1%**	**2%**	**3%**	**4%**	**6%**	
PBR 14 Reductions						
Operating ($ Millions)	$ 66	$ 134	$ 202	$ 268	$ 406	$ 1,076
Materiel ($ Millions)	320	622	933	1,254	1,900	5,029
Total	$ 386	$ 756	$ 1,135	$ 1,522	$ 2,306	$ 6,105
Total Savings ($ Billions)	$ 0.9	$ 1.5	$ 2.2	$ 2.5	$ 3.2	$ 10.3
DLA Reducing Total Costs (10% in 5 Years)	**2%**	**4%**	**6%**	**8%**	**10%**	
	FY14	FY15	FY16	FY17	FY18	

Primary Level Field Activities and staff have savings targets or goals over the years FY 2014 - FY 2018. The road map to achieving these Five Big Ideas is contained within their Agency Operating Plans (AOPs).

STAYING THE COURSE

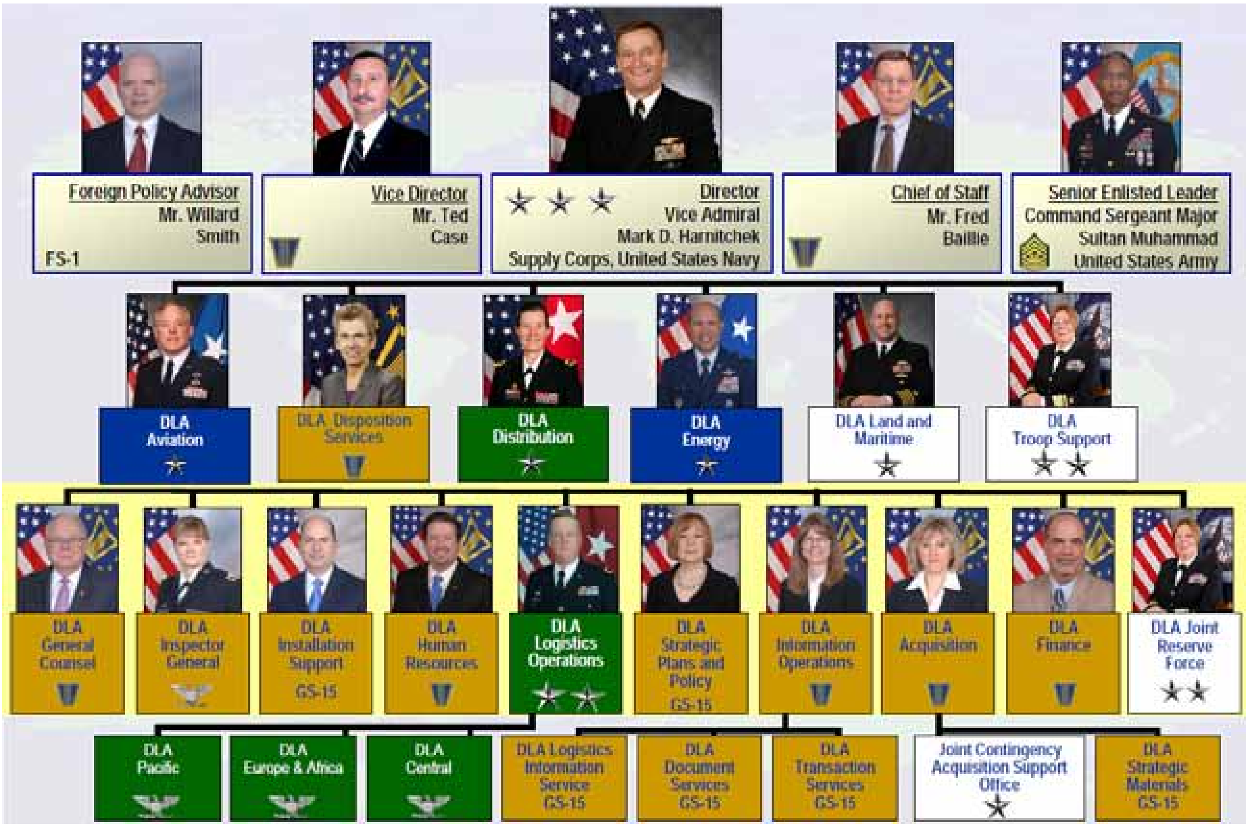
FY 2013 will clearly be another demanding year for DLA and all we serve. DLA must sustain our commitment of continuing to pursue initiatives that will contribute to improved warfighter support and greater fiscal responsibility. The primary forum for reporting quarterly progress is the Executive Board. Additionally, Primary Level Field Activities Reviews allow Commanders to go into greater detail regarding their initiatives. In summary, progress against these goals are reported in the governance forums per the chart below:



ORGANIZATION

DLA maintains a global presence and accomplishes its mission with approximately 26,000 civilian personnel, 568 active duty military personnel, and 757 reserve personnel. Overall, our personnel operate a $40 billion global enterprise in 28 countries, managing nearly 5 million items in 8 supply chains and supporting more than 1,700 weapon systems. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. These efforts will enable the implementation of an enterprise business model that develops, deploys, and executes an improved set of corporate business processes and strategies. By organizing as a single, integrated business enterprise, DLA will be in a position to focus more efficiently and effectively on supporting the DoD's supply chain, enhancing the Armed Forces' readiness, and providing for the warfighter during contingency operations. DLA is proactive in serving warfighter mission needs and constantly meets face-to-face with customers to determine requirements and how best to fulfill them.

Our organizational structure is described below:



DLA's core functions are directed or supported by:

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

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

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

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

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

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

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

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

DEFENSE WORKING CAPITAL FUND

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

During FY 2012, DLA executed a total budget program of approximately $44.0 billion; finished the year with total assets valued at approximately $25.9 billion and liabilities of $3.9 billion from the Consolidated Balance Sheet; and incurred a net operating loss of almost $1.6 billion on program costs of approximately $52.0 billion and revenues of nearly $50.3 billion from the Consolidated Statement of Net Cost.

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

SUPPLY MANAGEMENT

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

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

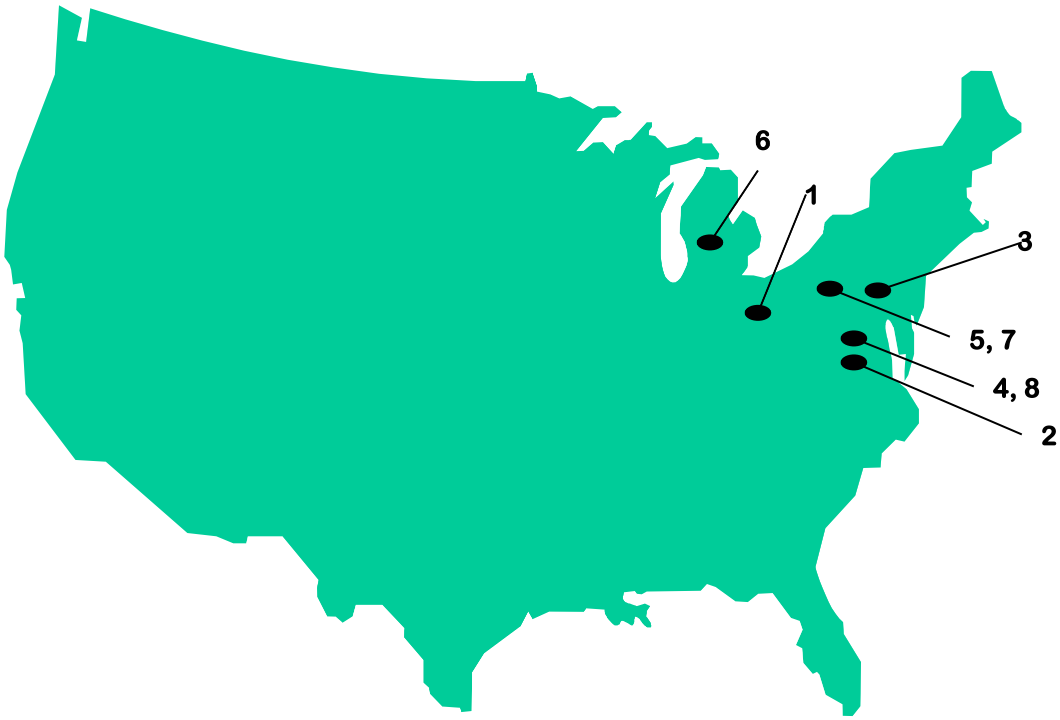
- Materiel Distribution (DLA Distribution): DLA Distribution provides a single, unified materiel distribution system for DoD. In addition to its primary mission of receiving, storing, and issuing materiel worldwide, distribution depots perform other functions that include - but are not limited to - providing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

- Disposition Services (DLA Disposition Services): DLA Disposition Services supports and coordinates the disposal of excess and surplus property within DoD. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non-profit organizations, state governments, and local governments. Property not reused, transferred, or donated is either sold to the public on a competitive basis or disposed of in an environmentally safe manner. A critical part of the DLA Disposition Services mission is to arrange for the worldwide disposal of hazardous waste in compliance with laws and regulations. This group accomplishes its mission from a headquarters in Battle Creek, MI, and 109 DLA Disposition Services field sites located on military installations around the world.

DLA DOCUMENT SERVICES

The DLA Document Services activity group provides printing, duplicating, and document automation services within DoD. This mission encompasses the full range of automated services to include: document workflow conversion, electronic storage and output, and distribution of hard copy and digital information. The focus is on enabling customers to transition from hardcopy to digital/electronic-based document management. The worldwide mission of the activity group is managed through a headquarters in Mechanicsburg, PA, and a network of 153 production facilities.

DEFENSE LOGISTICS AGENCY ACTIVITY GROUP PRINCIPAL LOCATIONS



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

GENERAL FUND AND TRANSACTION FUND

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

In FY 2012, DLA received nearly $1.0 billion in General Fund direct appropriations, which accounted for approximately 2% of DLA's total budget program. These appropriations included:

Operation and Maintenance (O&M); Research, Development, Test and Evaluation (RDT&E); Military Construction (MILCON); Procurement; Family Housing O&M; and Base Realignment and Closure (BRAC95).

The DLA O&M appropriation, of approximately $483.0 million, funded two distinct groups: Other Logistics Services (OLS), $323.0 million, and Other Logistics Programs (OLP), $160.0 million. The OLS group included approximately 30 programs that were associated with the DLA logistics mission, such as: Price Comparability, Warstoppers, Hard Copy Map Function, Unemployment, Morale Welfare & Recreation, and Disaster Relief Blankets. In addition, OLS included programs added by either the DoD or Congress, such as Logistics Transformation. The OLP group consisted of approximately 8 program offices for which DLA either provided administrative support or had program oversight, such as the Defense Property Accountability System Department of Defense Enterprise Business Systems, and the Continuity of Operations Program.

The DLA RDT&E appropriation, approximately $236.0 million, primarily supported two types of efforts: Advanced Technology Development which includes DLA Logistics Research and Development Technology Demonstration program; Defense Microelectronics Activity program; and United States Transportation Command program, and Operational System Development which includes DLA Industrial Preparedness Manufactured Technology program, and Logistics Support Activity program.

The DLA MILCON appropriation, nearly $293.0 million, funded major construction projects to replace, renovate, or build new facilities. Of these DLA facilities, approximately 70% are fuels infrastructure construction projects and 30% are associated with DLA's non-fuels distribution operation. The Army Corps of Engineers and Naval Facilities Engineering Command are the primary design and construction agents for this program.

The DLA Procurement appropriation, nearly $11.5 million, funded the purchase of mission essential equipment, including passenger carrying motor vehicles, telecommunications equipment, and automated data processing equipment.

The DLA Family Housing O&M appropriation, nearly $1.2 million, supported an inventory of 170 units located at the Distribution Depot Susquehanna, PA (140 units), and the Distribution Depot San Joaquin, CA (30 units). DLA's Family Housing program consisted of routine operational requirements including management and utility costs, carpet and linoleum replacement, painting, and replacement of appliances.

The BRAC 95 appropriation began in FY 2012 with no FY 2012 funds. As a result of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) decision to consolidate all prior year BRAC95 funds, approximately $8.0 million or prior year active obligation authority was collected and re-issued in FY 2012 for current and pending requirements.

The DLA General Fund finished FY 2012 with total assets valued at approximately $1.9 billion and liabilities of approximately $233.0 million from the Consolidated Balance Sheet.

DLA also manages **DLA Strategic Materials**, a separate revolving fund with over $1.0 billion in total assets and $333.0 million in its Transaction Fund for FY 2012. DLA Strategic Materials strives to provide safe, secure, and environmentally sound stewardship for strategic and critical materiel in the National Defense Stockpile. DLA Strategic Materials is not accounted for in these financial statements, but is embedded in the DoD Agency-wide financial statements.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

The Defense Finance and Accounting Service (DFAS) prepared the FY 2012 DLA financial statements from available automated finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes. Due to system deficiencies, there are limitations in collecting the data needed to prepare financial statements that comply with Federal standards. To prepare the financial statements, DFAS made numerous adjustments during the compilation process in an attempt to overcome these deficiencies. DLA has several corrective actions underway that are intended to improve the underlying systems, business processes, and internal controls.

SYSTEMS, CONTROLS AND AUDIT READINESS

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

The DLA conducted an internal review of the effectiveness of the DLA internal controls over financial reporting for the Financial Improvement Plan (FIP) assessable units identified in the May 2012 Financial Improvement and Audit Readiness (FIAR) Plan Status Report and related financial systems. The May 2012 FIAR Plan Status Report provides information pertaining to the DLA accomplishments and identifies the schedule for the DLA FIP assessable units that are currently under evaluation.

The assessment was conducted in compliance with OMB Circular No. A-123, Appendix A, and the DoD FIAR Guidance under the oversight of the DLA's Senior Assessment Team (SAT). The DLA SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the DLA is able to provide a qualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2012, were operating effectively with the exception of 15 material weaknesses.

The DLA also conducted an internal review of the effectiveness of the internal controls over the financial systems. The DLA is able to provide no assurance that the internal controls over the financial systems as of June 30, 2012, are in compliance with the Federal Financial Management Improvement Act and OMB Circular No. A-127 Financial Management Systems. Testing was not performed as plans were being developed and contracts put into place to address the applicable Defense Business Systems transferred to DLA for management in FY 2012, and nine DLA Business Systems. The reviews and testing which are just getting underway will follow Federal Information Systems Controls Audit Manual (FISCAM) procedures and assess Federal Financial Management Improvement Act (FFMIA) compliance, to include the Standard Financial Information Structure (SFIS).

The DLA has established Financial Improvement Plans (FIPs) to address all identified weaknesses and provide monthly updates to OSD.

Based on its evaluation, DLA provided a qualified Statement of Assurance (SOA) that its system of internal controls, as of June 30, 2012, was operating effectively with the exception of 15 material weaknesses. DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner.

SYSTEMS

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

- Effective June 30, 2010, the Defense Business Management System (DBMS) and Base Operations Support System (BOSS) data cleanse and conversion project moved valid Prior Year Unliquidated Obligations (ULOs) from these two legacy systems onto EBS.

  The project had three main objectives, 1) validating prior year existing ULOs, 2) converting valid ULOs to EBS and 3) closing-out DLA financial data on DBMS & BOSS legacy systems. Data cleansing in the legacy systems occurred until June at which time validated ULOs were converted to EBS. After conversion, the payment office was redirected to EBS. All future invoices for these ULOs will now be paid out of EBS. DLA financials, which previously resided in legacy accounting systems, now reside in the DLA EBS.

- Closed/Cancelled Funds;

  During 2012 Fiscal Year End (FYE) closing process, enhancements to EBS will include improvements to the budget, collection and disbursement processes for closed/cancelled funds. The added functionality is in compliance with the guidance on Appropriated funds life-cycle status contained in the DoD Financial Management Regulation, Volume 3, Chapter 10. The new functionality will impact the way EBS handles Accounts Receivable/Payable records when a fund is in closed/cancelled status.

  - *Accounts Receivable (AR)*: During FYE processing, open AR documents (bills) in a closing Fund will be systemically reversed into that closing Fund, and then reestablished in the Miscellaneous Receipt Account. Subsequent processing of bills in future years (either Write-Off or Collection) will take place in the Miscellaneous Receipt Fund. The posting to the Miscellaneous Receipt Fund will update Proprietary Accounts only; no Budgetary Account postings will take place in EBS.

  - *Accounts Payable (AP)*: During FYE processing, open AP documents in a closing Fund will be systemically reversed into that closing Fund, with a corresponding posting to the Future Funded Expense General Ledger Account. In subsequent FYs, invoices will be posted to EBS citing the now Cancelled Fund with a new Document Type. EBS will recognize this transaction and post the invoice to the appropriate new FY Fund based on derivation rules. EBS will do a budgetary check against the Cancelled Fund for validity and then against the new Fund to verify it does not exceed 1% of the new Fund Authority. The disbursement is then made against the new Fund and the Future Funded Expense is reduced. The disbursement is subsequently identified to Treasury as being made on behalf of a Cancelled Fund.

- **EProcurement** is the DLA effort to consolidate and standardize multiple legacy acquisition systems/tools used across the enterprise into a single system/tool with the same SAP platform as EBS, DLA's Enterprise Resource Planning (ERP) system. The effort began five years ago in partnership with SAP resulting in the development of the SAP product, Procurement for Public Sector (PPS). PPS is synonymous with EProcurement within the DLA community. Recent efforts on the EProcurement Project have been focused on moving DLA organizations to the new system.

    - The effort consists of multiple system releases (technical) with multiple functional roll-outs (processes) to the various DLA organizations tied to each of the releases. As each organization moves into EProcurement, they transition off of their legacy systems. The goal for close-out of legacy systems is one calendar year from date of transition.

    - The following is a summary of EProcurement releases and associated process and organizations:

        - Release 1.0, November 2010
            - Processes: "Manual One-Time Buy" (partial), Forms (partial) and Commitments.
            - Organizations: DLA Document Services and DLA Strategic Materials.

        - Release 1.1, February 2011
            - Processes: "Manual One-Time Buy " (extend functionality); Depot Level Reparable (partial); Government Purchase Card link; Forms (remainder); Automated Workflow (partial); Interfaces (partial); Records Management (partial); Direct Cite Inbound Funding Document; and BOSS (Retail and Hazardous).
            - Organizations: February (DLA Contracting Services Office (DCSO)-H & DCSO-E) and April (DCSO-B, DLA Disposition Services, DLA Logistics Information Services and DLA Distribution).

        - Release 1.2, October 2011
            - Processes: Automated Processing & Sourcing; Automated Workload Assignment; Outbound Organic Funding Document; Long-Term Contract; Automated Workflow (extend functionality); Interfaces (remainder); Business Warehouse reporting; and Records Management (extend functionality).

    - Organizations: Monthly schedule starting in October 2011 (DCSO-R; DLA Aviation; DLA Aviation Detachment at Troop Support; DCSO-C; Land & Maritime; Land & Maritime Detachment at Troop Support; DCSO-P; and Troop Support).

  - **Real Property Increment 2 (RP2)** is a project to replace additional DLA legacy systems by implementing more of the real property functionality in EBS. The new functionality went live in February 2012 with deployment support through June 2012. Real Property Increment 2 included the following:

    1. Enhancements to EBS:
        a. Flexible Real Estate Module
        b. Project Systems Module
    2. Implementation of:
        a. Records Management
        b. Plant Maintenance Module
        c. E-Portal access for non-DLA customers to log deficiencies for Energy RP assets
    3. Rollout of Project Systems Module functionality to DLA Energy
    4. Assessment of Energy Convergence (EC) to determine which requirements are within the EC effort, and which to RP2, and build data elements, such as Plant Codes, to work properly with RP.

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

  - Spiral 2 implementation in FY 2012 resulted in the roll back from the desired end-state at DLA - Norfolk. Therefore, remaining implementations for Navy Fleet Readiness Center locations (DLA Aviation - San Diego, Jacksonville and Cherry Point) were delayed until FY 2013. At this time, deployment for IMSP Spiral 2 at San Diego is scheduled for April 2013.

- **Energy Convergence (EC):** As DLA enterprise continues to extend across the DoD supply chain, a technology insertion effort was needed to enable the SAP Industry Solution Public Sector and the SAP Industry Solution Oil & Gas to coexist in support of the DLA Energy mission requirements. At the highest level, DLA Energy's business processes and other DLA supply chain operations appear similar, but at a more detailed level there are differences to resolve. EC System Integration blueprinting process has aligned business processes with the enterprise software and the new commercial application. Release 1, implemented in October 2011 using the existing DLA EBS framework, brought Aerospace Energy, Natural Gas as well as other Energy Programs into EBS. EC Release 2 (with six separate rollouts) will continue to bring more functionality and Energy Programs including fuel into EBS starting October 2012. The last EC Release will continue to add more functionality in October 2013. Overall the EC program will allow DLA to integrate fuels commodity management within the DLA Enterprise Architecture to include applications being introduced via DLA's EProcurement and Real Property programs. In addition, this effort will bring an integrated and coherent business solution to DLA.

MANAGEMENT CONTROLS

DLA utilizes the information gained through test and evaluation of internal controls to support the strategic decisions necessary to mitigate risk, provide transparency, and accountability as we source and provide the repair parts and virtually all fuel and troop support consumable items used by the military forces.

Our headquarters, J-Codes, and primary level field activity (PLFAs), recognize the importance of audit readiness and performance metrics, and have taken the next logical steps to evaluate internal controls and document results to provide a historical repository of information for DLA to manage its supply chain. The management information includes comprehensive risk management processes, business reference model/value chains (business cycles), strong internal self-assessments, streamlined operations with common business practices, and systems which produce quality integrated, timely, accurate, and reliable operational and financial information for optimal decision making.

In FY 2012, DLA's strategic objective titled "Stewardship Excellence" moved in a new direction as DLA implemented OMB Circular No. A-123, Management's responsibility for Internal Control, Appendix A methodology to evaluate both financial and operational business processes. The mapping, risk analysis, and testing provided opportunities for DLA to track the evaluation of its business processes to meet its goals and let everyone know how DLA is doing as it measures its performance, and corrects course quickly and with agility. DLA has set aggressive goals that significantly improve support to its customers while dramatically driving down operations and material costs.

The DLA Stewardship Committee continues to be the senior level governance structure to proactively assess threats, weaknesses, strengths and opportunities facing the agency. DLA is committed to accountability, transparency, and risk mitigation through the evaluation of our internal control framework. DLA's approach in FY 2012 has been to build on the successes achieved by use of Office of Management and Budget (OMB) Circular No. A-123, Appendix A methodology. We leveraged common business process management and aligned the financial and nonfinancial processes in an end-to-end Enterprise Process Model. The information contained in the DLA FY 2012 Statement of Assurance (SOA) is the result of audits, compliance and performance inspections, and self-reporting of control deficiencies by DLA Assessable Units, along with accomplishments toward preventing control deficiencies. The SOA demonstrates progress in addressing difficult management issues while emphasizing a strategy of continuous improvement. DLA's rigorous internal control process methodology; Lean Six Sigma; and Enterprise Risk Management initiatives all play important roles in strengthening the Agency's understanding of its key business processes, as well as in the identification, validation, and testing of internal controls.

DLA is able to give the same level of reasonable assurance to the Secretary of Defense in our annual SOA with greater specificity, management involvement, and accuracy through the assessment of the effectiveness of the internal controls.

PROGRESSING TOWARD AUDIT READINESS

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

The ten business cycles that fall under the purview of this governance structure include:

- Procure to Pay
- Order to Cash
- Plan to Stock
- Budget to Execution
- Environmental Liabilities Management
- Fund Balance With Treasury
- Hire to Retire
- Acquire to Retire
- Technical Infrastructure and Architecture
- Record to Report

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

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

On September 30, 2010, DLA management asserted its audit readiness on the General and Working Capital Appropriations Received and Distributed (Wave 1), which is reported on the Appropriation Received line of the Statement of Budgetary Resources. The DLA assertion was scoped to the processes and controls from the point of receiving a funding document from the OUSD(C), the accurate recording in DLA's financial/reporting systems, through funds distribution to the internal DLA execution level.

The OUSD(C) and DoD Office of Inspector General (OIG) reviewed DLA's audit readiness assertion on appropriations received. In June 2011, the DoD OIG stated that the DLA General and Working Capital Fund combined assertion amount (less than one percent of the DoD Agency-Wide Total Budgetary Resources) is clearly immaterial to the overall operations and therefore did not think it is in the best interest of DoD to expend resources to perform an attestation to validate audit readiness. However, to be ready for a Statement of Budgetary Resources assertion, DLA continues to address the OUSD(C) and DoD OIG identified gaps in its Wave 1 assertion package.

Financial Improvement and Audit Readiness (FIAR) Initiative

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

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

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

- **Controls** - to ensure that proper controls are in place to achieve:

  - Effectiveness and efficiency of operation,
  - Reliability of financial reporting, and
  - Compliance with applicable laws and regulations.

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

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

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

During the Discovery and Correction phases, DLA reviews and evaluates every business process step and develops corrective actions for each of the five essential elements of financial management improvement. Corrective actions for each element are captured as milestones in the FIPs and KCO plans. DLA has completed a substantial amount of discovery for the end to end business cycles associated with the SBR. However, discovery tasks still remain and continue to be accomplished, the outcome is that key capabilities identified in the Standards and Criteria have been assessed as effective or deficient. Where key capabilities were assessed to be effective, the controls and processes are incorporated into the annual ICOFR testing activities. Where deficiencies were uncovered, detailed corrective action plans have been developed and responsibilities for actions assigned, resulting in significant changes to the DLA Financial Improvement Plans (FIPs) beyond the first Wave.

The DLA is also reliant upon key Service Providers in order to assert audit readiness; one of these is DFAS. The DLA is closely partnering with DFAS to assess the business processes, controls and documentation for the DFAS activities that support DLA business cycles. The testing of internal controls related to these DFAS processes is incorporated into DLA's annual ICOFR activities. The DFAS has identified the various systems that support the processes it performs in support of DLA and has incorporated them into process flows and documentation.

Throughout the agency, DLA continues to update their plans to achieve auditable financial statements as we progress toward these goals.

IMPROPER PAYMENTS

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 million or more annually if conducting such audits would be cost-effective. DLA employs a contractor to perform payment recapture audits. Since FY 2005 our payment recapture audit contractor has reviewed $76.8 billion in payments for contracts procuring inventory for the Supply Chain Management Activity Group. As of the end of FY 2012, $1.5 million has been identified for recapture. Root causes for the $1.5 million in improper payments fell into the following categories: decreases ($782.3 thousand, or 50 percent), deductions not taken for lump sum contract payment of duplicate invoices ($703.5 thousand or 45 percent). As of September 30, 2012, 81 percent, or $1.3 million of the improper payments have been recovered. DLA continues to review its business processes to mitigate and resolve conditions giving rise to improper payments.

OTHER ACCOMPANYING INFORMATION

DoD Executive Agent (EA):

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

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

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

DLA Troop Support: Provided Mission Analysis and Course of Action Development for the transition of forces in Iraq from DoD to Department of State (DoS). Class I is the only Troop Support supply chain that continues to support the DoS post the December 2011 transition. Class I personnel continue to coordinate the Concept of Operations for DoS support to include Class I representatives positioned in Iraq.

Class I (Subsistence):

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

- Participated in all planning efforts for the DoS transition in Iraq with all stakeholders including United States Forces – Iraq (USF-I), Army Contracting Command (Rock Island), Central Command (CENTCOM) and the Subsistence Prime Vendor. Planning efforts culminated in turnover of sites from USF-I to DoS support and the signing of an Interagency Agreement between DLA and DoS.

- Oversaw the transition of the Subsistence Prime Vendor contract for Iraq from USF-I support to DoS support. Simultaneously supported the closure of USF-I sites and the establishment of DoS sites. This process included: gathering requirements, establishing delivery schedules, coordinating first/last delivery, determining new border crossing requirements and arranging for convoy escorts. Before, during and after the transition the Prime Vendor was monitored for performance to ensure quality support was provided to the customer. Currently planning/coordinating the closure of two DoS sites.

- Coordinated with the Department of the Army G4 on the future of the Army's War Reserve program. This coordination included the drafting and staffing of a new Performance Based Agreement.

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

- Continued to participate in the joint planning process providing review and input on multiple plans in support of PACOM, AFRICOM, EUCOM, NORTHCOM and CENTCOM. Provided Logistics Sustainability Analyses for COCOMs when required.

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

- Monitored, tracked, reported and facilitated the Central Asian States (CAS) local purchasing initiative. Expanded purchases in accordance with stated goals and COCOM emphasis. Sent Subsistence representatives to the CAS region to attend meetings and pursue new business partners.

- Supported the Federal Emergency Management Agency's (FEMA) Distribution Centers by supplying Commercial Meals Ready-to-Eat to meet their stockage requirements prior to disaster response. Provided additional meals as required to support FEMA's disaster relief efforts during hurricane season and other events.

- Worked with United States Forces - Afghanistan (USFOR-A), U.S. Department of State, the Government of the Islamic Republic of Afghanistan (GIRoA) and Prime Vendor contractors to resolve visa, business license and tax issues to ensure continued operations and support to the Warfighter.

- Continued to develop CL I Northern Distribution Network (NDN) routes to alleviate reliance and congestion on the Pakistan Ground Lines of Communication (PAKGLOC) while capturing statistical data and conducting analysis to increase efficiency and cost effectiveness.

- Limited the effects of the closure of the PAKGLOC by diverting containers still "on the water" and directing vendors to cease booking containers bound for the port of Karachi.

Mitigated the potential for Class I shortages through expanded use of the NDN and the establishment of air deliveries via the UAE. NDN congestion was alleviated through the establishment of an air tender at the port of Riga, Latvia. Additionally conducted a Proof of Principle (POP) for multi-modal transportation of government furnished material from continental United States (CONUS) to wholesale warehouses in Afghanistan.

- Coordinated support for the NATO Maintenance and Supply Agency (NAMSA) in Afghanistan, integrating requirements/deliveries into the current CL I Prime Vendor contract.

- Participated in Active Tracking and Intrusion Detection (ATID) planning and implementation meetings with representative from the Services, CENTCOM, USFOR-A, and TRANSCOM.

- Continued to coordinate semi-annual meetings of the Joint Subsistence Policy Board consisting of Service representatives and other partners to discuss and resolve Subsistence related issues.

Class II (Clothing & Textiles):

- Contributed data in response to Congressional Inquiries regarding Uniform Standardization initiatives to the Clothing & Textile Governance Board.

- Re-designed E-SORTS Assessment questions to reflect true quantifiable criteria/standards for determining contingency support capabilities of the Clothing and Textiles supply chain.

- Drafted, coordinated and submitted three Logistics Support Analyses for OPLANs submitted by Pacific and Central Commands.

- Supported USCENTCOM and AFRICOM by deploying Warfighter Support Representatives (WSRs) to Afghanistan and Djibouti for six months.

- Provided Class II personnel for Ulchi Freedom Guardian 2011 and Key Resolve 2012.

- Processed over $800 thousand in Military Interdepartmental Purchase Request transactions for Class II materiel/services on behalf of Combatant Commands and other DoD units requiring special ordering capacities.

- Provided support to FEMA's Exercise Ardent Sentry 2012.

- Provided stand-by support for Tropical Storm Isaac Disaster Relief 2012.

Class III (B) (Bulk Petroleum):

- Supported military service alternative fuel testing and certification efforts with targeted acquisition of hydro treated renewable fuels; delivering HRJ5 from camelina biomass oil feedstock to support preliminary testing and follow-on Navy certification testing; delivering HRJ8 using camelina and tallow biomass oil feedstocks for Air Force use in 50 percent blends with JP8; and delivering camelina-derived HRJ8 to the Army.

- Targeted research and development efforts to advance alternative fuel state of knowledge. The Energy Strategy for DoD for Carbon Capture Sequestration (CCS) evaluated CCS technologies and will demonstrate technologies designed to reduce carbon emissions. Biomass Waste to Energy will modify technology to convert biomass waste to fuel, and demonstrate a prototype mobile unit for use at forward operating locations. Alternative Energy from Organic Sources demonstrates ability to increase the productivity/yield of current process used to produce algae-derived F-76 through a production pilot. (Fuel produced in the pilot supports the Navy's certification program).

- Utilized a Strategic Alliance Working Group forum to advance efforts. Completed a Bio-refinery Business Case Analysis.

- Determined alternative fuel industrial production and distribution capabilities to serve as a baseline for alternative fuel strategic planning. Completed a DLA Energy Alternative/Synthetic Fuel Roadmap Study. Provided technical support to the DoN/DoE/USDA Bio-refinery Initiative.

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

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

- Identified and assessed opportunities to improve in-transit visibility data collection that may be enhanced through the use of Automatic Identification Technology (AIT) in direct interface with Automatic Information Systems (AIS).

- Worked to improve the logistics of tactical equipment used in the storage and handling of bulk petroleum. Engaging both the Military Services and industry to better the supply and maintenance of fuel bladders. Established a Collapsible Fuel Tank (CFT) Working

Group to improve CFT acquisition efforts from requirement determination, ordering and manufacturing perspectives. Completed a full revision of the CFT joint performance specification and identified areas for improving manufacturing quality, responding to customer performance needs, and reducing costs to DoD.

- Continued to comprehensively improve joint bulk petroleum training availability and visibility. Improved and made available the Joint Knowledge On-line (JKO)/Defense Knowledge On-line (DKO) Joint Petroleum Training Course and other courses to better prepare fuel logisticians for Combatant Command and contingency support duties.

- Initiated a Defense Fuel Supply Point (DFSP) management study to develop a strategy for burden shifting of DFSP operational support in the future. The intent is to prepare for anticipated requests by the Military Services by fully evaluating financial impacts and assessing benefits and alternatives.

- Finalized the Executive Agent strategic document ("Bulk Petroleum EA 2021 Concept Paper") for guiding the DoD Bulk Petroleum Community in addressing challenging EA issues which impact supply chain performance. Also, constructed the complimenting Implementation Plan that charts the way forward with detailed approaches to bridge gaps and seams in various portions of the energy logistics spectrum.

Class IV (Construction and Equipment):

- Continued to engage the Combatant Commands to optimize sustainment and planning. Assigned Troop Support Planners (TSPs) to Combatant Commands to provide the warfighters with access to supply chain subject matter expertise. Deployed 2 of the 8 EA team members to USCENTCOM/ U.S. European Command (USEUCOM) (i.e., Kuwait) areas of responsibility (AOR). Actively engaged the warfighter to gain knowledge and insights into their needs/requirements in order to provide improved support to the Combatant Commander.

- Deployed TSPs to support U.S. Pacific Command (USPACOM).

- Participated in planning efforts to proactively support the increase of forces in Afghanistan.

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

- Issued 7,167 CL IV containers and material to date, from Supreme facilities in Afghanistan, valuing approximately $122.0 million. This initiative has provided excellent customer support. Anticipated closeout of Supreme facilities later this year with only 446 containers remaining to be issued.

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

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

- Continued to analyze/resolve previously identified supply chain gaps and seams.

- Participated in FEMA's natural disaster (earthquake) scenario exercises. Ensured DLA CL IV's readiness for the 2012 hurricane season.

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

- Increased our COCOM visits, conferences and participation in operational planning events.

- Established an Inter-Service Agreement at the corporate level with FEMA. Current alliances with commercial partners in support of CL IV requirements have been made through negotiated contracts.

- Utilized several enabling technologies that support the total visibility of construction/barrier materiel requirements and assets throughout the entire supply chain. (This work is primarily being performed by our CL IV EA Program Office). One such tool is the Node Management Deployable Depot (NoMaDD), which is in the development stage. NoMaDD is intended to provide end-to-end (E2E) supply chain in-transit visibility (ITV). Additionally, we are using SPIDERS which offers industrial base extension, mission tracking, and virtual wartime visibility.

- Organized an EA CL IV Council of Colonels to further anticipate future CL IV issues across the services.

- Developed a CL IV EA Road Show to brief/educate key COCOM Customers on EA services and abilities.

- Acquired requisite systems to begin tracking container movement/recovery to/from the AOR.

- Supported CENTCOM Policy Letter 40 and DLA Local Sourcing Memorandum through local sourcing efforts (i.e., fuel drums, lumber, plywood, PVC and concertina wire) in South Caucasus/Central and Southern Asia (SC/CASA).

- Worked with the Department of State and US Army Corps of Engineers (USACE) to improve the local sourcing program and support a Whole of Government (WOG) approach.

Class VIII (Medical Materiel):

- The Defense Medical Logistics Enterprise continues to invest in the Functional Executive Agent Medical Support (FEAMS) Medical Contingency Requirements Workflow (MCRW) with the ultimate goal to provide a clinically-driven medical materiel item estimate (requirement), a sourcing analysis for commercially procurable materiel (e.g. gap and cost reporting) and collaborative tools (workflow) for planners, developers, logisticians and clinicians to manage gaps, availability, and costs for medical materiel support to contingency operations.

- The Medical Supply Chain continued to leverage the Warstopper Program to meet the surge and sustainment requirements of the Military Services. Through utilization of Warstopper funds, the Medical Supply Chain was able to gain access to $770.0 million of critical medical materiel with a $28.0 million investment, roughly 27 to 1 return on investment. This represents efficient and effective utilization of programmed funds.

- DLA Troop Support Medical, in coordination with Defense Health System Support (DHSS) and the DoD Services responded to an OSD directed Medical Cost Reduction Initiative. The Defense Medical Logistics Enterprise responded by collaboratively developing and fielding "state of the art" Information Management/Information Technology business intelligence tools to make informed clinical decisions on medical product selection to reduce delivered costs of both pharmaceuticals and medical/surgical items. Examples include redirecting manual requisitions to E-Commerce and purchasing less expensive generic products. Cumulative cost avoidance in FY 2012 was $45.6 million.

- Department of Defense Instruction (DoDI) 5101.15, DoD Medical Materiel Executive Agent Implementation Guidance was signed on May 4, 2012. This DoDI directs DLA to establish the Defense Medical Logistics Supply Chain Council (DMLSCC) to serve as a collaborative forum to facilitate and integrate the development of strategic and operational relationships, capabilities, performance standards and system integration necessary for effective and efficient medical supply chain support.

ADDITIONAL INITIATIVES AND ACCOMPLISHMENTS FOR FISCAL YEAR 2012

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

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

After conducting two DoD war games, Needs Assessment Phase to identify gaps that currently prevent DoD from achieving Perfect Order Fulfillment and Sustained Joint Supply Readiness in support of our Joint Forces Commanders, the Final JS JIC CBA Solutions Recommendations has been completed. The final report that identified solutions to gaps resulting in either a Doctrine, Organizational, Training, Materiel, Leadership and Education, Personnel and Facilities (DOTMLPF) – Policy Change Request (PCR) or Initial Capabilities Document (ICD) was completed and forwarded to JS J4 June 2012.

Performance Based Logistics (PBL): PBL is an outcome-based support strategy that plans for and delivers an integrated, affordable, performance solution designed to optimize system readiness. In August 2010, DLA established a PBL Program office in the J35, Strategic Programs and Initiatives Directorate to help lead the DLA transition from primarily a parts provider to a deliverer of performance based outcomes. Our intent is to pursue PBLs as a collaborative, enterprise strategy by exploring potential opportunities where product support requirements are common across services. Our goal is to build and maintain trusted long-term performance based partnerships with acquisition and sustainment programs across the military departments. As a support activity, DLA intends to accomplish this via a performance based, outcome driven PBL contract. Under such a vehicle, the weapon system acquisition team enters into an agreement with industry, an organic organization or a combination of the two. That PBL provider is then held responsible for providing specific performance metrics, such as material availability and reliability, in support of components, sub-systems, or entire platforms.

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

The initiative was implemented at DLA Distribution Yokosuka, Japan and DLA Distribution Guam in April 2011 and at the remaining OCONUS depots in July 2011.

Strategic Network Optimization: The objective of the Strategic Network Optimization program is to conduct an examination of the current DoD distribution network and recommend improvements which would support the Military Service's 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 a network optimization is to make the network components work together so that the supply chain can perform the mission-critical operations for which it was intended--at an optimized performance level. The network flow model minimizes total cost of moving product through the network (throughput cost) while maintaining all performance standards.

Base Realignment and Closure (BRAC) 2005 Supply and Storage focuses on transformation through realignment and consolidation of similar operations across the DoD logistics enterprise, the goal being supply chain integration. With this BRAC implementation, the Military Services and DLA are working to create an integrated E2E supply chain operation for DoD that will optimize warfighter support and readiness. The BRAC Supply and Storage implementation is laying the foundation and serving as the catalyst for achieving future optimization of the Defense logistics supply chain. The BRAC Supply and Storage recommendations, along with supporting systems and process changes, are designed to: increase buying power with suppliers, create smoother materiel flow, reduce customer wait time for parts, achieve inventory investment savings, and reduce redundancy in processes for the Department, all of which enable logistics economies and efficiencies that improve support to operational joint and expeditionary forces. BRAC 2005 also expands DLA's role in DoD logistics, moving the Agency beyond its traditional wholesale role to becoming a broader integrated logistics provider. In addition, BRAC also drives supporting business process, policy, and information systems changes to enhance DLA's ability to fulfill its new mission and responsibilities. The following are descriptions and a summary of accomplishments for the three Supply and Storage recommendations:

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

- **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 extend across the DoD supply chain, a technology insertion effort was needed to enable the SAP Industry Solution Public Sector and the SAP Industry Solution Oil & Gas to coexist in support of the DLA Energy mission requirements. At the highest level DLA Energy business processes and other DLA supply chain operations appear similar, but at a more detailed level there are differences to resolve. EC System Integration blueprinting process will align business processes with the enterprise software and the new commercial application. EC will allow DLA to integrate fuels commodity management within the DLA Enterprise Architecture to include applications being introduced via DLA's EProcurement and Real Property programs. In addition, this effort will bring an integrated and coherent business solution to DLA Energy's non-petroleum business lines.

- **Inventory Management and Stock Positioning (IMSP)**: IMSP supports the implementation of the BRAC Supply, Storage, and Distribution (SS&D) Management Reconfiguration recommendation. IMSP extends EBS process capabilities and system functionality necessary to support DLA's consumer-level (retail) SS&D responsibilities for industrial depot maintenance customers. IMSP system functionality has rolled out to users at

DLA Aviation, DLA Aviation at Warner Robins, GA, DLA Aviation at Oklahoma City, OK, DLA Aviation at Ogden, UT, DLA Land and Maritime, and DLA Distribution. Continued roll-outs will occur for additional DLA SS&D sites.

- **EProcurement:** The EProcurement Program will provide DLA with a single, enterprise-wide capability supporting the end-to-end procurement process that is more responsive to warfighter requirements. While some DLA organizations have transitioned to EProcurement, others still use the legacy DLA Pre-Award Contracting System (DPACS). EProcurement has replaced a variety of procurement systems (e.g., DLA Strategic Materials used the Standard Procurement System; DLA Document Services used non-automated or manual procurement processes; and DLA Distribution and DLA Disposition Services used the Base Operations Support System (BOSS)). It will enhance the Agency's ability to perform the depot-level reparable (DLR) procurement management mission that resulted from implementation of the BRAC 2005 DLR recommendation. A single, enterprise-wide procurement capability will reduce redundancy, costliness, and employ a standard contract writing and contract administration methodology across the Agency.

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

- **Reutilization Business Integration (RBI):** Formerly known as the Reutilization Modernization Program (RMP), RBI is DLA's strategy to replace the current Disposal Automated Information System suite of applications. RBI will integrate requirements into DLA Enterprise Business System (EBS), Distribution Standard System (DSS), DLA Document Services electronic document management applications, and Federal Logistics Information System (FLIS) for the RBI portfolio solution. This integration will incorporate DLA Disposition Services information systems into the DLA Enterprise Information Technology (IT) Solution Set, with the intent of maximizing use of existing IT solutions in the execution of DLA Disposition Services business. RBI deployment began in 4th Quarter, FY 2012 and will be completed by the second quarter of FY 2013.

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

Retail Integration: Retail integration is a transformational program to extend 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; Naval Air Station Whidbey Island, WA; Naval Air Weapons Station China Lake, CA; Marine Corps Air Station Miramar, CA; and Naval Auxiliary Landing Field San Clemente, CA. DLA is sustaining JRIMM throughout the island of Oahu, HI. Currently, DLA is in a strategic pause with its retail integration initiatives and is developing an end-to-end supply chain solution that will include various retail integration strategies. By fully integrating this solution into the business systems and processes, the end-to-end supply chain will experience further reductions to customer wait-times, higher levels of supply readiness, more tailored logistics support solutions, improved inventory and customer demand visibility, greater optimization of the supply chain, better use of available resources (including lower overall DoD inventory and inventory management costs), and a reduction in the Military Services' inventory investments without reducing support.

Reverse Logistics: Reverse Logistics in DLA consists primarily of two components: the Materiel Returns Program, which equates to the 'Return' process of the Supply Chain Operations Reference Model of supply chain management; and the reutilization services performed by DLA Disposition Services. Under the Materiel Returns Program, customers return materiel that they no longer need to the wholesale supply chain to support other customers' requirements. Each year DLA processes $400 million to $700 million of the Military Services' excess materiel through the Materiel Returns Program and receipt of unanticipated returns resulting in approximately $65 million to $100 million in annual inventory investment savings. These assets, in turn, preclude the need to initiate procurement actions to acquire inventory to meet projected requirements, thus improving both the efficiency and effectiveness of supply chain management. The DLA Disposition Services reutilization mission primarily involves receiving materiel that is no longer needed by a component of the DoD and making it available to all of the components of the Department. During FY 2012, DoD reutilized $1.3 billion worth of excess inventory. Collectively, these efforts optimize the use of materiel that is available to the Department and help minimize the investment in inventory.

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

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

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

(J9) Reservists: Among the manpower available to DLA were 752 reservists - authorized and funded by the Military Services. The reservists are utilized by DLA in a variety of capacities in support of peacetime operations, planning and exercises, contingencies, and wartime surges. Since September 11, 2001, the wartime surges were supported with the mobilization of 903 reservists who served a total of 1,183 tours of duty in support of Operations Enduring Freedom, Iraqi Freedom, New Dawn, and Odyssey Dawn. During FY 2012, 155 reservists mobilized and provided support to DLA's Support Teams (DSTs) in Kuwait and Afghanistan. Collectively, activated reservists logged more than 48,000 man-days of support to DSTs, field activities, and headquarters missions. The Agency's Stewardship Excellence initiative is carried out by the JRF in the 8,400 man-days of operational support provided (at no cost) to the Agency.

In order to meet the operational support needs of DLA, the JRF completed multiple annual training activities in FY 2012. In total, 215 DLA reservists from all four Military Services participated in the sixth annual Joint Reserve Training Readiness Exercise at Joint Base Eustis Langley, VA, in April 2012. The exercise was to enhance Total Force Readiness while simultaneously completing Theater Specific Individual Requirements Training and promoting teamwork. This included the Humvee Egress Assistance Trainer, the Engagement Skills Trainer (EST) 2000, the Leadership Reaction Course, weapon familiarization and firing range for the M-4 carbine and the M-9 pistol qualification, Improvised Explosive Device identification and reaction, and joint physical training. This training was highlighted on DLA Today, DLA's Facebook page and both the Joint Reserve Force internal and external website pages.

To ensure training requirements are accurately tracked and completed prior to mobilization, 35 Reservists and civilian employees participated in the Training Officer Workshop in August. This workshop included briefings on individual training plan development and implementation, upcoming training and readiness events for FY 2013 and service, budget and operational updates. This forum ensures coordinators and training officers throughout the JRF understand the current and future plans for manning, mobilization and training and readiness. Ninety-two Senior Officer and Noncommissioned Officer Reservists joined together for the annual Joint Reserve Force Leadership Board at DLA headquarters in August where lessons-learned and future expectations within the Warfighter Support Enhancement Initiative were shared with JRF leadership.

Defense Logistics Agency
Working Capital Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2012 and 2011

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER
NOVEMBER 2012

The Defense Logistics Agency (DLA) Director has set a goal for the DLA Financial Statements, Working Capital Fund and General Fund, to be audit ready by the end of fiscal year (FY) 2015. This is in advance of the overall DoD FY17 timeframe.

To meet this accelerated timeframe, the Agency is concentrating on the following challenges:

- System Posting Logic – ensuring the DLA business system, Enterprise Business System (EBS), is compliant with the U.S. Treasury Standard General Ledger and the DoD Standard Financial Information Structure requirements.

- Understanding the Processes and Controls – DLA is a complex, global organization and is in the process of gaining a more complete understanding of activity level actions through Process Cycle Memorandums (PCMs). Physical "walk-throughs" of the PCMs are being performed to validate that processes are being performed as documented and that key controls are in place and effectively operating.

- Inventory - DLA holds $21.4 billion in resale inventory at sites operated by DLA, the Military Services, and contractors. An impediment in the Energy area is the movement of the DLA Energy business area out of a legacy system into EBS. Other impediments are reconciling accountable inventory to the financial records and the documentation supporting the moving average cost valuation.

- System – EBS processes 700 million transactions annually. At this volume, it is challenging to extract data required to support an audit in a timely manner.

- Real Property – DLA occupies real property globally. But, for the most part, the Agency is a tenant on Military Service installations. The challenge is the availability of supporting documentation to reconcile DLA and Military Service records at these locations.

In the past year, DLA asserted to the audit readiness of Appropriations Received and the Funds Balance with Treasury reconciliation process. In FY13, DLA will assert to the audit readiness of Hosted/Permitted-Site Real Property, Civilian Pay and Benefits, and Environmental Liabilities Management.

J. Anthony Poleo

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

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DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,559,769	$ 1,650,573
Other Assets (Note 6)	124,925	125,357
Total Intragovernmental Assets	1,684,694	1,775,930
Cash and Other Monetary Assets (Note 7)	5,377	6,728
Accounts Receivable, Net (Note 5)	1,202,686	745,717
Inventory and Related Property, Net (Note 9)	21,357,285	21,589,714
General Property, Plant and Equipment, Net (Note 10)	1,628,644	1,559,500
Other Assets (Note 6)	31,661	28,846
TOTAL ASSETS	$ 25,910,347	$ 25,706,435
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 134,349	$ 121,522
Other Liabilities (Note 15 & 16)	677,154	45,672
Total Intragovernmental Liabilities	811,503	167,194
Accounts Payable (Note 12)	2,474,880	3,973,773
Military Retirement and Other Federal Employment Benefits (Note 17)	245,787	227,818
Environmental and Disposal Liabilities (Note 14)	195,003	86,326
Other Liabilities (Note 15 and Note 16)	216,099	216,587
TOTAL LIABILITIES	3,943,272	4,671,698
NET POSITION		
Cumulative Results of Operations - Other Funds	21,967,075	21,034,737
TOTAL NET POSITION	21,967,075	21,034,737
TOTAL LIABILITIES AND NET POSITION	$ 25,910,347	$ 25,706,435

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
PROGRAM COSTS		
Gross Costs	$ 51,972,448	$ 48,534,680
(Less: Earned Revenue)	(50,325,253)	(50,244,594)
Net Program Costs Including Assumption Changes	1,647,195	(1,709,914)
NET COST OF OPERATIONS	$ 1,647,195	$ (1,709,914)

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,034,737	$ 19,489,905
Beginning balances, as adjusted	21,034,737	19,489,905
Budgetary Financing Sources:		
Appropriations used	1,400,627	507,852
Nonexchange revenue	(254)	(1,636)
Transfers-in/out without reimbursement	(1,023)	(1,283,000)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	1,000,178	413,730
Imputed financing from costs absorbed by others	180,006	197,972
Other (+/-)	(1)	-
Total Financing Sources	2,579,533	(165,082)
Net Cost of Operations (+/-)	1,647,195	(1,709,914)
Net Change	932,338	1,544,832
Cumulative Results of Operations	$ 21,967,075	$ 21,034,737
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	400,627	507,852
Appropriations transferred-in/out	1,000,000	-
Appropriations used	(1,400,627)	(507,852)
Net Position	$ 21,967,075	$ 21,034,737

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	Restated 2011
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 127,423	$ (41,102)
Unobligated balance brought forward, October 1, as adjusted,	127,423	(41,102)
Recoveries of prior year unpaid obligations	1,733,328	1,935,579
Other changes in unobligated balance (+ or -)	(712,918)	(3,178,373)
Unobligated balance from prior year budget authority, net	1,147,833	(1,283,896)
Contract Authority (discretionary and mandatory)	51,636,510	45,781,893
Spending Authority from offsetting collections (discretionary and mandatory)	(730,989)	1,754,779
Total Budgetary Resources	$ 52,053,354	$ 46,252,776
Status of Budgetary Resources:		
Obligations Incurred	$ 51,936,924	$ 46,125,354
Unobligated balance, end of year		
Apportioned	116,430	127,422
Total unobligated balance, end of year	116,430	127,422
Total Budgetary Resources	$ 52,053,354	$ 46,252,776

The accompanying notes are an integral part of these statements.

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	Restated 2011
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	$ 21,034,553	$ 21,123,165
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(8,151,532)	(7,909,886)
Obligated balance start of year (net), before adjustments (+ or -)	12,883,021	13,213,279
Obligated balance, start of year (net), as adjusted	12,883,021	13,213,279
Obligations incurred	51,936,924	46,125,354
Outlays (gross) (-)	(46,481,584)	(44,278,384)
Change in uncollected customer payments from	(1,650,472)	(241,646)
Recoveries of prior year unpaid obligations (-)	(1,733,327)	(1,935,579)
Obligated balance, end of year		
Unpaid Obligations, end of year (gross)	24,756,566	21,034,556
Uncollected customer payments from Federal sources, end of year (-)	(9,802,004)	(8,151,532)
Obligated balance, end of year	$ 14,954,562	$ 12,883,024
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 50,905,521	$ 47,536,672
Actual offsetting collections (discretionary and mandatory) (-)	(44,500,996)	(45,156,599)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(1,650,472)	(241,646)
Budget Authority, net (discretionary and mandatory)	4,754,053	2,138,427
Outlays, gross (discretionary and mandatory)	46,481,584	44,278,384
Actual offsetting collections (discretionary and mandatory) (-)	(44,500,996)	(45,156,599)
Outlays, net (discretionary and mandatory)	1,980,588	(878,215)
Agency Outlays, net (discretionary and mandatory)	$ 1,980,588	$ (878,215)

The accompanying notes are an integral part of these statements.

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

Defense Logistics Agency
Working Capital Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2012 and 2011

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Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the DLA WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of DLA 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 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) Accounts Receivable; (4) Inventory; (5) General Property, Plant, and Equipment; (6) Accounts Payable; (7) Intragovernmental Eliminations; and (8) Other Accounting Entries.

B. Mission of the Reporting Entity

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

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

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

C. Appropriations and Funds

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

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

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

D. Basis of Accounting

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

USGAAP. Most of DLA's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

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

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

E. Revenues and Other Financing Sources

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

F. Recognition of Expenses

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

G. Accounting for Intragovernmental Activities

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

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

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

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

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

H. Transactions with Foreign Governments and International Organizations

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

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

I. Funds with the U.S. Treasury

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

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

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

J. Cash and Other Monetary Assets

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

K. Accounts Receivable

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

Exchange transactions such as FEAs must be settled through the issuance or receipt of replacement supplies or services within 12 months of the original transaction according to current DoD policy. As the settlement of the exchange transactions is authorized to take up to

12 months, the analysis of the nonfederal accounts receivable balances greater than 180 days old could be distorted. To assist in the analysis, Note 5, Accounts Receivable, separates FEA transaction balances from the remainder of the nonfederal accounts receivable. Currently, upon reconciliation the purchases of fuel from foreign governments are netted against their accounts receivable balances.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA WCF.

M. Inventories and Related Property

The DLA values approximately 64% of its resale inventory using the moving average cost method. An additional 36% (fuel inventory) is reported using the first-in, first-out 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. Work in process balances include: (1) costs related to the production or servicing of items, including direct material, labor, applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated cost incurred in the delivery of maintenance services.

N. Investments in U.S. Treasury Securities

Not Applicable to DLA WCF.

O. General Property, Plant and Equipment

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

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

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

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

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

P. Advances and Prepayments

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

Q. Leases

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

R. Other Assets

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

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

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

S. Contingencies and Other Liabilities

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

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

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

T. Accrued Leave

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

U. Net Position

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

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

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

V. Treaties for Use of Foreign Bases

Not Applicable to DLA WCF.

W. Undistributed Disbursements and Collections

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

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

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

X. Fiduciary Activities

Not Applicable to DLA WCF.

Y. Military Retirement and Other Federal Employment Benefits

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

Z. Significant Events

Not Applicable to DLA WCF.

Note 2. Nonentity Assets

As of September 30	2012	2011
(Amounts in thousands)		
Nonfederal Assets		
Cash and Other Monetary Assets	$ 5,377	$ 6,728
Accounts Receivable	637,942	7,837
Total Nonfederal Assets	$ 643,319	$ 14,565
Total Nonentity Assets	$ 643,319	$ 14,565
Total Entity Assets	$ 25,267,028	$ 25,691,870
Total Assets	$ 25,910,347	$ 25,706,435

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

Cash and Other Monetary Assets consist of cash collected by DLA Disposition Services that will be paid to other entities. When DLA Dispositions Services enters into a long-term contract with a buyer purchasing excess/surplus government property or scrap, it requires a prepayment. After contract closeout, any remaining balance is refunded to the sales contractor. The Nonfederal Accounts Receivable consists of a claim filed against a vendor in 2nd Quarter, FY 2012, for a potential overpayment of services by DLA Troop Support - Subsistence.

Note 3. Fund Balance with Treasury

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balance at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included in the Defense-Wide Working Capital Fund (DWWCF), a TI 97 DWCF appropriation sub-numbered account. This account is maintained at an aggregate level that does not provide identification of the separate Defense Agencies. Additionally, while DLA maintains collections and disbursement clearing accounts, those cash balances are transferred to the DWWCF cash account on an annual basis. As a result, the United States Treasury does not separately report an amount for the DLA and therefore, the entire DLA's FBWT amount is reflected as a reconciling amount. The DLA balance in the DWCF cash account as of the 4th Quarter, FY 2012 is $580.9 million.

Status of Fund Balance with Treasury

As of September 30	2012	2011
(Amounts in thousands)		
Unobligated Balance		
Available	$ 116,430	$ 127,423
Obligated Balance not yet Disbursed	$ 24,756,566	$ 21,034,554
NonFBWT Budgetary Accounts	$ (22,529,331)	$ (18,237,328)
Total	$ 2,343,665	$ 2,924,649

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

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

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

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

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

The $2.3 billion difference between the FBWT (Total Fund Balance – Line 1.F versus the Total Status of Fund Balance – Line 5) is the prior year transfer of FBWT to the Component level

(.005) in accordance with the DoD Financial Management Regulation, Volume 4, Chapter 2, paragraph 020402.c.

Note 4. Investments and Related Interest

Not applicable to DLA WCF.

Note 5. Accounts Receivable

As of September 30	2012		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,559,769	N/A	$ 1,559,769
Nonfederal Receivables (From the Public)	$ 1,356,104	$ (153,418)	$ 1,202,686
Total Accounts Receivable	$ 2,915,873	$ (153,418)	$ 2,762,455

As of September 30	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,650,573	N/A	$ 1,650,573
Nonfederal Receivables (From the Public)	$ 800,929	$ (55,212)	$ 745,717
Total Accounts Receivable	$ 2,451,502	$ (55,212)	$ 2,396,290

The accounts receivable represents 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	2012	2011
(Amounts in thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 0	$ 432
Other Assets	124,925	124,925
Total Intragovernmental Other Assets	$ 124,925	$ 125,357
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$ 31,614	$ 28,813
Advances and Prepayments	47	33
Total Nonfederal Other Assets	$ 31,661	$ 28,846
Total Other Assets	$ 156,586	$ 154,203

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.

The Contract Financing Payment balance of $31.6 million is comprised of $26.1 million in contract financing payments and an additional $5.5 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7. Cash and Other Monetary Assets

As of September 30	2012	2011
(Amounts in thousands)		
Cash	$ 5,377	$ 6,728
Total Cash, Foreign Currency, & Other Monetary Assets	$ 5,377	$ 6,728

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

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA WCF.

Note 9. Inventory and Related Property

As of September 30	2012	2011
(Amounts in thousands)		
Inventory, Net	$ 21,357,285	$ 21,589,714
Total	$ 21,357,285	$ 21,589,714

Restrictions

The DLA SCM Inventory, Net total has restrictions of $64.0 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. The SCM inventory is reported in the Enterprise Business System (EBS). Energy Management is reported in the Business System Modernization - Energy (BSM-E).

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

Energy Management inventory consists of jet fuels, aviation gasoline, automotive gasoline, heating oil, power generation, naval propulsion fuels, lubricants, and missile propellants. As of 4th Quarter, FY 2012, DLA reported $13.7 billion inventory using Moving Average Cost and $7.7 billion inventory using Transactional First-In, First-Out.

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

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

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

Minimum Inventory Levels

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

Petroleum inventories are comprised mostly of products with military specification and are stocked primarily to meet wartime operation plans and to ensure that DLA has sufficient stocks in place to minimize any risk to the warfighter. Wartime petroleum requirements are calculated by Military Services and coordinated with Combatant Commanders. The DLA's Energy Management then works with the Combatant Commanders to position those stocks where space permits and within the funded volumes. The current wartime stockage objective is 34.5 million barrels (mbbls). Peacetime bulk petroleum inventory requirements are calculated by Energy Management in accordance with guidelines provided by OUSD(C), and are positioned by Energy Management prior to placing war reserve inventories. The peacetime objective is 25.4 mbbls. These inventories are not physically segregated in tankage, meaning that wartime (appropriated funded) stocks can be used to meet peacetime (working capital funded) requirements.

Inventory, Net

As of September 30 (Amounts in thousands)	2012 Inventory, Gross Value	2012 Revaluation Allowance	2012 Inventory, Net	Valuation Method
Inventory Categories				
Available and Purchased for Resale	$ 21,242,754	$ 0	$ 21,242,754	MAC,FIFO, LAC
Held for Repair	190,885	(76,354)	114,531	LAC,MAC
Excess, Obsolete, Unserviceable	6,088,133	(6,088,133)	0	NRV
Total	$ 27,521,772	$ (6,164,487)	$ 21,357,285	

As of September 30 (Amounts in thousands)	2011 Inventory, Gross Value	2011 Revaluation Allowance	2011 Inventory, Net	Valuation Method
Inventory Categories				
Available Purchased for Resale	$ 21,481,197	$ 0	$ 21,481,197	LAC,MAC
Held for Repair	180,862	(72,345)	108,517	LAC,MAC
Excess, Obsolete, Unserviceable	6,708,738	(6,708,738)	0	NRV
Total	$ 28,370,797	$ (6,781,083)	$ 21,589,714	

LAC = Latest Acquisition Cost FIFO = First In, First Out MAC = Moving Average Cost
NRV = Net Realizable Value

Note 10. General PP&E, Net

As of September 30	2012				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 Or 40	$ 2,094,195	$ (1,523,618)	$ 570,577
Leasehold Improvements	S/L	lease term	0	0	0
Software	S/L	2-5 Or 10	1,697,154	(1,102,931)	594,223
General Equipment	S/L	5 or 10	512,618	(397,615)	115,003
Assets Under Capital Lease	S/L	lease term	358	(275)	83
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	347,417	N/A	347,417
Other			1,696	(355)	1,341
Total General PP&E			$ 4,653,438	$ (3,024,794)	$ 1,628,644

Note 10. General PP&E Net (continued)

As of September 30	2011				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	20 Or 40	$ 2,061,385	$ (1,457,354)	$ 604,031
Software	S/L	2-5 Or 10	1,581,299	(1,005,788)	575,511
General Equipment	S/L	5 or 10	561,037	(433,312)	127,725
Assets Under Capital Lease	S/L	lease term	358	(203)	155
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	250,571	N/A	250,571
Other			1,696	(189)	1,507
Total General PP&E			$ 4,456,346	$ (2,896,846)	$ 1,559,500

See Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

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

Restrictions

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

Heritage Assets and Stewardship Land

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

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

As of Sept 30, 2012

Asset	Depreciation/ Amortization Method	Acquisition Date	Service Life Years	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Bellwood Club	S/L	July 1, 1840	40	$ 482,200.00	$ 482,200.00	$ 0
Construct Handicap Ramp	S/L	May 23, 1995	20	$ 212,818.00	$ 173,801.37	$ 39,016.63
Net Bellwood Club				$ 695,018.00	$ 656,001.37	$ 39,016.63
Gregory Family Cemetery	N/A	July 1, 1993		$ 28,000.00	$	$ 28,000.00
African American Cemetery	N/A	July 1, 2000		$ 28,772.00	$	$ 28,772.00
Native American Monument	N/A	July 1, 2001		$ 22,274.00	$	$ 22,274.00
Net Heritage Assets				$ 774,064.00	$ 656,001.37	$ 118,062.63

Current Annual Depreciation on Bellwood Club Capital Improvements

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

Method of Depreciation is straight line.

Assets Under Capital Lease

As of September 30	2012	2011
(Amounts in thousands)		
Entity as Lessee, Assets Under Capital Lease		
Equipment	$ 358	$ 358
Accumulated Amortization	(275)	(203)
Total Capital Leases	$ 83	$ 155

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2012	2011
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 24,349	$ 23,885
Total Intragovernmental Liabilities	24,349	23,885
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	245,787	227,818
Environmental Liabilities	145,611	48,164
Other Liabilities	2,100	2,409
Total Nonfederal Liabilities	$ 393,498	$ 278,391
Total Liabilities Not Covered by Budgetary Resources	$ 417,847	$ 302,276
Total Liabilities Covered by Budgetary Resources	$ 3,525,425	$ 4,369,422
Total Liabilities	$ 3,943,272	$ 4,671,698

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. The unfunded FECA liability consists of liabilities for cases being paid by the Department of Labor (DOL) for employees of DLA and actuarial cost projections. Unfunded environmental liabilities are estimates related to future events.

Composition of Other Lines

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

Nonfederal Liabilities: Other consists of contingent legal liabilities that comprise of one case within DLA Aviation pertaining to a case with the Armed Services Board of Contract Appeals.

Military Retirement and Other Federal Employment Benefits:

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of employee actuarial FECA liabilities estimated to be payable in a future fiscal year in the amount of $245.8 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2012		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 134,349	$ N/A	$ 134,349
Nonfederal Payables (to the Public)	2,474,880	0	2,474,880
Total	$ 2,609,229	$ 0	$ 2,609,229

As of September 30	2011		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 121,522	$ N/A	$ 121,522
Nonfederal Payables (to the Public)	3,973,773	0	3,973,773
Total	$ 4,095,295	$ 0	$ 4,095,295

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

Note 13. Debt

Not Applicable to DLA WCF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30 (Amounts in thousands)	2012	2011
Environmental Liabilities--Nonfederal		
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	$ 195,003	$ 86,326
2. Total Environmental Liabilities	$ 195,003	$ 86,326

The DLA's Environmental Liabilities (EL) are from current and out-year Remedial Action Cost Engineering and Requirements (RACER) estimates related to DLA Energy for 218 sites; 129 sites associated with closure costs, and 89 sites are corrective action costs. In August 2011, DLA executed the RACER model and generated the fiscal year FY 2012 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

The DLA has developed a plan for collecting and reporting EL for Non-Base Realignment and Closure (Non-BRAC) contamination at DLA managed Installations including Government-Owned Contractor-Operated (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 OUSD(C) resolves real property record inconsistencies between the military services and DLA.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

The DLA has 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 model, an independently validated model, to estimate environmental costs. The RACER Steering Committee validates the model in accordance with Department of Defense (DoD) Instruction 5000.61 and uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

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

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

The DLA had changes in estimates for FY 2012 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA is not aware of any pending changes but the EL are expected to fluctuate due to changes in laws and regulations, change in agreements with regulatory agencies, and advances in technology. The FY 2012 CTC has incorporated the DoD inflation factors into the Non-BRAC closure estimates. The latest version of RACER (version 10.4) was used to rebaseline estimates.

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

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

DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible. Due to the lack of information in environmental remediation work a parametric cost model (such as RACER) would be used as a preliminary of order of magnitude estimate. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

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

Note 15. Other Liabilities

As of September 30	2012		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 26,765	$ 6,038	$ 32,803
Custodial Liabilities	637,942	0	637,942
Employer Contribution and Payroll Taxes Payable	6,409	0	6,409
Total Intragovernmental Other Liabilities	$ 671,116	$ 6,038	$ 677,154
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 200,447	$ 0	$ 200,447
Advances from Others	1	0	1
Deposit Funds and Suspense Accounts	5,377	0	5,377
Capital Lease Liability	93	0	93
Contract Holdbacks	0	169	169
Employer Contribution and Payroll Taxes Payable	2,421	0	2,421
Contingent Liabilities	2,100	5,491	7,591
M. Total Nonfederal Other Liabilities	$ 210,439	$ 5,660	$ 216,099
3. Total Other Liabilities	$ 881,555	$ 11,698	$ 893,253

As of September 30	2011		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 25,022	$ 6,621	$ 31,643
Custodial Liabilities	7,837	0	7,837
Employer Contribution and Payroll Taxes Payable	6,192	0	6,192
Total Intragovernmental Other Liabilities	$ 39,051	$ 6,621	$ 45,672
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 201,456	$ 0	$ 201,456
Deposit Funds and Suspense Accounts	6,728	0	6,728
Capital Lease Liability	159	0	159
Contract Holdbacks	3	326	329
Employer Contribution and Payroll Taxes Payable	13	0	13
Contingent Liabilities	2,409	5,493	7,902
Total Nonfederal Other Liabilities	$ 210,768	$ 5,819	$ 216,587
Total Other Liabilities	$ 249,819	$ 12,440	$ 262,259

Capital Lease Liability

As of September 30	2012			
	Asset Category			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
Future Payments Due				
2013	$ 0	$ 81	$ 0	$ 81
2014	0	13	0	13
2015	0	0	0	0
2016	0	0	0	0
2017	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments Due	$ 0	$ 94	$ 0	$ 94
Less: Imputed Interest Executory Costs	0	1	0	1
Net Capital Lease Liability	$ 0	$ 93	$ 0	$ 93
Capital Lease Liabilities Covered by Budgetary Resources				$ 93

As of September 30	2011			
	Asset Category			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
Future Payments Due				
2012	$ 0	$ 75	$ 0	$ 75
2013	0	75	0	75
2014	0	13	0	13
2015	0	0	0	0
2016	0	0	0	0
After 5 Years	0	0	0	0
Total Future Lease Payments Due	$ 0	$ 163	$ 0	$ 163
Less: Imputed Interest Executory Costs	0	4	0	4
Net Capital Lease Liability	$ 0	$ 159	$ 0	$ 159
Capital Lease Liabilities Covered by Budgetary Resources				$ 159

Custodial Liabilities includes $628.4 million for principal, interest, penalties, and administrative fees for a claim filed against a vendor in 2nd Quarter, FY 2012 for a potential overpayment of services by DLA Troop Support - Subsistence.

Contingent Liabilities includes $7.6 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. It is DoD policy that these rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, DLA has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

Total Contingent Liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the 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 $17.1 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. The DLA's Case Management System (CMS) is used by OGC to project the outcome and value of open cases. The CMS projects a minimum liability of approximately $17.1 million and a maximum liability of approximately $85.0 million. Both the minimum and the maximum levels increased in FY 2012 due to the addition of one new case within DLA Aviation. Case subject matter for the additions included contract disputes and equal employment opportunity/personnel matters.

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 budgetary resources. 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 commitments and contingencies. Refer to Note 15, Other Liabilities, for further details.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2012		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 245,787	$ 0	$ 245,787
Total Other Benefits	$ 245,787	$ 0	$ 245,787
Total Military Retirement and Other Federal Employment Benefits:	$ 245,787	$ 0	$ 245,787

As of September 30	2011		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
FECA	$ 227,818	$ 0	$ 227,818
Total Other Benefits	$ 227,818	$ 0	$ 227,818
Total Military Retirement and Other Federal Employment Benefits:	$ 227,818	$ 0	$ 227,818

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 2012 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

3.535% in Year 1
4.025% 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) 2012 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
2012	N/A	N/A	
2013	2.53%	3.62%	
2014	1.83%	3.66%	
2015	1.93%	3.73%	
2016+	2.00%	3.73% and thereafter	

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2012 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 2012 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.

Remarks: The interest rate assumptions and COLAs and CPIMs projections are for 2011. The rate and projections will be updated after DOL publishes the CBY, COLA and CPIM's data for 2012.

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2012	2011
(Amounts in thousands)		
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,933,642	$ 2,072,307
B. Nonfederal Cost	50,038,806	46,462,373
C. Total Cost	$ 51,972,448	$ 48,534,680
2. Earned Revenue		
A. Intragovernmental Revenue	$ (41,814,126)	$ (42,825,327)
B. Nonfederal Revenue	(8,511,127)	(7,419,267)
C. Total Revenue	$ (50,325,253)	$ (50,244,594)
Total Net Cost	$ 1,647,195	$ (1,709,914)
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,933,642	$ 2,072,307
B. Nonfederal Cost	50,038,806	46,462,373
C. Total Cost	$ 51,972,448	$ 48,534,680
2. Earned Revenue		
A. Intragovernmental Revenue	$ (41,814,126)	$ (42,825,327)
B. Nonfederal Revenue	(8,511,127)	(7,419,267)
C. Total Revenue	$ (50,325,253)	$ (50,244,594)
Total Net Cost	$ 1,647,195	$ (1,709,914)

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 2012.

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

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

No Disclosures were Required for DLA WCF in FY 2012.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2012	2011
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 21,932,659	$ 16,573,532
Available Borrowing and Contract Authority at the End of the Period	0	0

Apportionment Categories for Obligations

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

($ millions)	**Category A**	**Category B**	**Totals**
Direct Obligations Incurred	0.0	0.0	0.0
Reimbursable Obligations Incurred	0.0	51.9B	51.9B
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	0.0	51.9B	51.9B

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2012	2011
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 51,936,924	$ 46,125,354
Less: Spending authority from offsetting collections and recoveries (-)	(47,884,795)	(47,333,825)
Obligations net of offsetting collections and recoveries	$ 4,052,129	$ (1,208,471)
Net obligations	$ 4,052,129	$ (1,208,471)
Other Resources:		
Transfers in/out without reimbursement (+/-)	1,000,178	413,730
Imputed financing from costs absorbed by others	180,006	197,972
Other (+/-)	(1)	0
Net other resources used to finance activities	$ 1,180,183	$ 611,702
Total resources used to finance activities	$ 5,232,312	$ (596,769)
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 (-)	$ (5,359,127)	$ 777,997
Unfilled Customer Orders	1,891,370	19,242
Resources that fund expenses recognized in prior Periods (-)	(309)	(10,525)
Resources that finance the acquisition of assets (-)	(37,855,866)	(37,900,819)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	(1,000,178)	(413,731)
Total resources used to finance items not part of the Net Cost of Operations	$ (42,324,110)	$ (37,527,836)
Total resources used to finance the Net Cost of Operations	$ (37,091,798)	$ (38,124,605)

As of September 30	2012	2011
(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	108,677	39,287
Increase in exchange revenue receivable from the public (-)	83,157	(256,752)
Other (+/-)	19,091	2,380
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 210,925	$ (215,085)
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 218,221	$ 501,194
Revaluation of assets or liabilities (+/-)	783,252	(258,851)
Other (+/-)		
Cost of Goods Sold	37,730,301	36,642,452
Other	(203,706)	(255,019)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 38,528,068	$ 36,629,776
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ 38,738,993	$ 36,414,691
Net Cost of Operations	$ 38,738,993	$ 36,414,691

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

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

DLA adjusted the note schedule in the amount of ($428,465.01) million to bring it into balance with the Statement of Net Cost (SNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems and is included in Other Components Not Requiring or Generating Resources.

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

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

Composition of Other Lines

Resources Used to Finance Items Not Part of Net Cost of Operations: Other consists of transfers to Fund Balance With Treasury to the Component Level.

Components Requiring or Generating Resources in Future Period: Other consists the change in estimate for current year actuarial liability for Worker's Compensation Benefits liability.

Components not Requiring or Generating Resources: Other consists of Cost capitalization offsets for Internal Use Software, building improvements and renovations, and other structures and facilities.

Note 22. Disclosures Related to Incidental Custodial Collections

This is not applicable to DLA WCF.

Note 23. Earmarked Funds

This is not applicable to DLA WCF.

Note 24. Fiduciary Activities

This is not applicable to DLA WCF.

Note 25. Other Disclosures

This is not applicable to DLA WCF.

Note 26. Restatements

This is not applicable to DLA WCF.

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Defense Logistics Agency
Working Capital Fund

Required Supplementary Information
For the Fiscal Years Ended September 30, 2012 and 2011

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Heritage Assets

For Fiscal Year Ended September 30, 2012

HERITAGE ASSETS For Fiscal Year Ended September 30, 2012					
Heritage Asset Categories	Measurement Quantity	As of 10/01/11	Additions	Deletions	As of 9/30/12
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 2012 categories are defined as follows:

Buildings and Structures

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

Archeological Site

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

Museum Collection Items

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

Heritage Assets Acquisition Method

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

Stewardship Land

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

DLA has no Stewardship Land.

Real Property Deferred Maintenance

For Fiscal Year Ended September 30, 2012

Property Type	**Current Fiscal Year (CFY)**		
In Millions of Dollars	1. Plant Replacement Value	2. Required Work (Deferred Maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$56,465	$3,701	6.55%
2. Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	NA	NA	NA
3. Category 3: Buildings, Structures, and Utilities (Heritage assets)	NA	NA	NA

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

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

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

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

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

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

Facility Categories are as follows:

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

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Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group Overview

Supply Management
DLA Distribution
DLA Disposition

SUPPLY MANAGEMENT ACTIVITY GROUP

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

During FY 2011, DLA supported nearly 1,700 different weapon systems and managed fuel that generated the provisioning of 13 million gallons of fuel (on a daily average). By year's end, there were more than 14,400 civilian, 275 active duty military, and 180 military reserve personnel that supported this business area. The Supply Management Activity Group generated revenue which totaled about $50.1 billion during FY 2012. This was an increase of almost $0.1 billion from the previous year.

MISSION

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

The primary logistics functions include:

- Supply-chain integration and inventory management;
- Transportation management (shared with DLA Distribution Activity Group);

- Technical management, which guarantees product quality and proper pricing of materiel;

- Procurement management, ensuring DoD gets the best value;

- Logistics data and information collection, management, and distribution and providing for the integration and availability of this information; and,

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

STRATEGIC GOALS

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

- **Strategic Sourcing (SS):** SS focuses on stratifying and satisfying customer driven high demand and readiness hardware items. Almost 193,483 of the 3.8 million hardware items managed by DLA are through long-term agreements. While the targeted SS items make up only about 5% of the DLA managed hardware items, they account for 88% of its hardware procurement actions and 87% of sales. The primary performance measurement of the SS program is inventory savings. Since the inception of this program, DLA has realized over $464.0 million in one-time inventory savings and currently has more than 235,695 items under long-term agreements. These agreements include Prime Vendor Agreements, Corporate Contracts, and standard Long-Term Contracts.

- **Warstopper Program:** This program recognizes that peacetime demand for certain items is inadequate to sustain an industrial base sufficient for readiness and mobilization.

Consequently, extra preparedness measures are required for those items, and that critical industrial capabilities must be preserved to support the Department's readiness and sustainment requirements. In most cases, the Warstopper Program preserves essential production capability by investing in industry responsiveness to a projected surge requirement without purchasing, storing, and managing a finished goods inventory. This concept applies to items such as chemical protective suits, nerve agent antidote auto-injectors, meals-ready-to-eat, and tray pack assemblies. The most recent return on investment (ROI) analysis for the program indicates that from 1993 through 2010 the Warstopper program has offset nearly $5.0 billion in War Reserve Materiel inventory purchases - a return on investment of more than 7:1. DLA expects a similar ROI on the $62.0 million Warstopper Program investment made in FY 2012.

- **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 26 SSAs and each is assigned to a Supplier Relationship Manager, whose primary responsibility is the maintenance and success of the partnership. There are no plans at this time to add additional SSAs.

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

- **Performance-Based Logistics (PBL):** PBLs are the preferred support strategy to support DoD weapons systems and are expected to increase support to warfighters through increased materiel availability, improved reliability, and enhanced obsolescence management. DLA's strategy is to increase partnering with PBL Product Support Integrators (PSI) as a Product Support Provider; expand DLA capability to be the selected PSI in support of Military Services PBL initiatives; and to leverage DoD buying power through existing Strategic Supplier Alliances, Supply Chain Alliances, and other related DLA initiatives. DLA has expanded its scope of PBL products to include Enterprise PBLs. DLA's intent is to pursue PBLs as a collaborative, enterprise strategy by exploring potential opportunities where product support requirements are common across services. Our goal is to build and maintain trusted long-term performance based partnerships with weapon systems acquisition and sustainment programs across the military departments.

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

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

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

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

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

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

PROGRAM PERFORMANCE INDICATORS

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

- **Perfect Order Fulfillment (POF)** is fully deployed within the Fusion Center and is used to identify performance issues and areas for improvement within the logistics pipeline. As such, POF is DLA's overarching reliability metric; it shows the percentage of orders that are "perfect" in the eyes of the customer – the warfighter. Performance indicators aligned to POF include: Timeliness (materiel and data are delivered to the correct place and on time), Quantity (correct item and quantity are delivered), Quality (materiel is delivered in the correct condition and packaging), and Documentation (correct shipping, compliance, and payment documents support the order). The POF metric continues to be refined in order to improve data fidelity, such as adding logic to address Inventory Management and Stock Positioning (IMSP) sites, and add new drill-down features to aid in analysis efforts. For example, customer-oriented weapon system data is currently displayed, along with location-based filters. DLA's overall POF at the close of FY 2012 was 87.10%, above the established Management Objective of 85.78%. Timeliness continues to be the largest point of failure for POF, evidenced by the Timeliness component measured at slightly more than 86% for the close of FY 2010 (Documentation was greater than 99%, Quality was 99.9%, and Quantity was almost 98%). The latest revision to the Time Definite Delivery standards will almost certainly have an impact on POF performance, though the exact magnitude will not be known until the new logic and standards are implemented into the metric calculation. Emphasis is currently being placed on the time taken up between physical receipt of an order and when the Material Receipt Acknowledgement is submitted by the customer.

- **Attainment to Plan (ATP)** identifies the portion of vendor due-ins that are successful. In order for a vendor delivery to be successful it must meet three critical measures: Delivery must be of the correct quantity, serviceable condition, and on-time or early. An increase in ATP demonstrates improved accuracy of both procurement, and supply planning. Inaccuracies in ATP can result in backorders and/or excess inventory. In FY 2012, DLA ATP gained 9 points (from 48 to 57). DLA Aviation supply chain had a 2 point decrease; DLA Land and Maritime's improved by 31 points and DLA Troop Support (C&T) improved by 36 points. Also in FY 2012 a new supply chain Industrial Hardware was created, by realigning inventory management responsibilities. IH had a FY 2012 inaugural ATP of 59%. ATP is tracked for trends and as such, has not published goals.

- **Demand Planning Accuracy (DPA)** measures the degree of accuracy of a demand forecast compared to the actual demand. It is first calculated at the lowest level of detail, the Demand Forecasting Unit (DFU), comprised of a customer and an item of supply. The DFU can be rolled up to compute the DPA for the various and significantly larger customer groups (such as an Enterprise, a Demand Chain, etc.). DPA is measured in "lags" or forecasted ahead for set periods of time: Lag 0 (Current Month), Lag 1, 2, 3, 6, 12 & 24 months. Increased demand planning accuracy should result in better customer support and lower inventory investments and holding costs. To this end, DLA is using both top down and bottom up approaches. The DLA FY 2012 DPA was 60.29%, which is below the Management Objective of 61.4%, but an improvement over the FY 2011 ending performance of 60.24%.

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

APFE is a top down evaluation as it assesses the overall soundness of the process and allows the establishment and comparison of benchmarks. DLA does not have established management objectives for APFE at the Enterprise and Demand Chain levels. The metric is calculated and reviewed monthly. The DLA FY 2012 APFE was 67.17%, which is slightly higher (worse) than the FY 2011 ending performance of 65.23%. The DLA Demand Planning Improvement Team continues to research business decisions and planning processes, seeking methods to continue to improve the forecasting process and ensure it maintains the highest level of customer service possible.

- **Procurement Productivity** measures the Supply Chains response to Purchase Requests (PRs) by awarding either contracts or Purchase Orders and maintaining an acceptable level of backlog, PRs in process. This process includes manual awards, automated awards, placing delivery orders on existing Long Term Contracts and cancellations, as measured against the number of PRs in process. Over FY 2012, the Supply Chains reduced PRs in process from 149,236 at the end of October 2011 to 145,677 by the end of August 2012.

- **Administrative Lead Time (ALT)** is the total time between receipt of a customer order or planned requirement and contract award date. ALT is evaluated by comparing the actual lead time to the historical lead time of record. The actual ALT for FY 2012 (up to June 2011) fluctuated between 55 and 56 days compared to the actual ALT fluctuation of between 17 and 20 days in FY 2011.

- **Production Lead Time (PLT)** is the total time between the receipt of award by the vendor and the receipt of 100% of the contract quantity. PLT is evaluated by comparing actual lead time to the historical lead time of record. The actual PLT for FY 2012 (up to September 2012) fluctuated between 66 and 85 days compared to the actual PLT fluctuation of between 36 and 43 days in FY 2011.

- **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:

  - **SS LTC Renewals/Lapses**: Measures the timeliness of planned renewals for expiring SS Hardware NSNs on LTC. The DLA goal for FY 2011 was to renew 129,667 NSNs identified on expiring LTCs. DLA achieved 96,989 (74.7% of goal) renewals with .02% unplanned lapses. The DLA goal for FY 2012 was to renew 111,020 NSNs identified on expiring LTCs. DLA achieved 68,776 (62% of goal) timely renewals with 4.4% unplanned lapses as of September 2012. To improve on timely renewals, DLA is working with the PLFAs through what is called the BIG OPPORTUNITIES initiative directed by the DLA Director. Through the BIG OPPORTUNITIES initiative each PLFA will identify projects that will be awarded over the next fiscal year as well as follow-on contracts still requiring continued support from previous initiatives. All opportunities, new contract awards, as well as follow-on contracts, will be monitored by the HQ J74 Group and will be reported to DLA HQ Leadership monthly to monitor progress.

- **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. As of September 2012, 56.5% of total obligations were LTC contract obligations. Because of the high volume of purchase requests greater than the administrative lead-time of record, there has been a major push for awarding items to long-term contracting vehicles which is covered under the BIG OPPORTUNITIES initiative. The premise is, the more items on a long-term arrangement, then the volume of manual purchase will decrease. In addition to awarding new initiatives and maintaining the existing long-term arrangements, the obligations rates should also increase. In previous years there has not been an LTC obligations goal. To-date, due to this major initiative enterprise wide, all Hardware PLFAs have come up with and agreed to an LTC obligations goal of which will be worked towards over FY 2013.

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 2012 Goal	FY 2012 Actual
DLA Materiel Supply Chains	$1.00	$.99
DLA Distribution -Processing	$27.17	$29.13
DLA Distribution – Covered Storage	$6.35	$6.17
Disposition Services – Per Line	$39.04	$39.81
DLA Disposition Services – Per Pound	$0.09	$0.09

The DLA Materiel Supply Chains unit cost was $.99, which is $.01 lower than the goal established for FY 2012. Due to higher than planned sales, unit cost is calculated by dividing operating costs (the sum of total obligations and credit) plus depreciation expense by gross sales.

The DLA Distribution processing unit cost was $29.13, which exceeded the goal established for FY 2012 by $1.96 primarily due to processing of lower than planned number of line items. The unit cost is measured by processing costs relative to the number of line items processed. The Covered Storage unit cost measures the costs to provide covered storage to the cubic footage used. The actual Covered Storage unit cost was $6.17 or $0.18 lower than goal. This was achieved by close management of costs, as actual costs were $30.9 million below plan

($400.8 million budgeted vs. $369.9 million actual). The actual covered storage workload of 59.9 million cubic feet was below plan by 1.2 million cubic feet. This was caused by inventory reductions at Inventory Control Points issued to Army.

The DLA Disposition Services Cost per Line unit cost was $39.81, which was greater than the goal established for FY 2012 due to lower than projected workload volumes. Unit Cost is calculated by dividing the total cost of Receiving, Reutilization/Transfer/Donation and Useable Sales by the number of lines received and processed. The Cost per Pound unit cost was on plan, at $0.09 per pound. Hazardous Waste and Disposal and Recycling were down 130 million pounds over the FY 2012 goal of 1.983 pounds, processing 1,721 billion pounds of scrap and hazardous waste. Although total pounds were down, the total costs for FY 2012 remained on plan. Cost per pound is calculated by dividing the total costs for disposal of hazardous waste and non-hazardous item destruction by the number of pounds received and processed.

The DLA also measured and monitored financial performance of its Materiel Supply Chain business segment by comparing the Cost Recovery Rate (CRR) approved in the budget to that which was executed. The CRR is a composite rate that is calculated by dividing its related operating costs by the cost of goods sold; and is used as an aggregate measurement of the costs that DLA incurred to generate a level of sales. The long-term financial goal is to achieve a break-even budget-related accumulated operating result. DLA's composite FY 2012 CRR goal was 13.9%. The actual CRR was 13.1%, which was 0.8% lower than the FY 2012 President's Budget and is attributed to expected costs being nearer to plan while sales exceeded plan.

The DLA Energy Unit Cost is comprised of the Petroleum Material Costs and non-product costs (operations costs for fuel services, transportation, storage, and overhead). The Petroleum Product is the acquisition cost of a barrel of petroleum product purchased. Actual unit cost per barrel sold was $7.48 better than planned. This variance can be attributed to a higher composite product cost per barrel sold.

Unit Cost Results	FY 2012 Goal	FY 2012 Actual
Energy Unit Cost per barrel sold	$161.70	$169.18
Petroleum Product Cost per barrel	$148.20	$154.49

FINANCIAL RESULTS

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

Overall, the Agency had a positive net operating result of $280.0 million in FY 2012. The primary driver for the NOR financial gain is higher revenue for higher Material Supply Chain sales; partially offset by lower DLA Energy revenue (barrels sold at a lower Standard Fuel Price

(SFP). The Agency's net outlays were $1,981 million. The Agency experienced a cash loss of nearly $1,911 million due to lowering the DLA Energy SFP to $97.02 per barrel on July 1, 2012.

($ in billions)	**NOR**	**Net Outlays**
DLA Energy	$-0.261	$ 2.209
DLA Supply Chain Management	$ 0.551	$-0.252
DLA Document Services	$-0.010	$ 0.024
DLA	$ 0.280	$ 1.981

DLA DISTRIBUTION

DLA Distribution maintains a network of 26 worldwide distribution centers, an expeditionary distribution capability, and a robust acquisition office that allows us to execute our mission. We receive, store, and ship materiel from various DoD supply chains. We manage and distribute maps to worldwide customers. Through our network of distribution centers, we also provide relief support to CONUS disasters as well as humanitarian efforts throughout the world. Established on October 1, 1997, our mission has evolved and expanded to meet the dynamic, robust requirements of the warfighter. Today, more than 10,000 employees provide timely distribution services to customers around the globe.

During FY 2012, DLA Distribution processed over 18.4 million lines receipts and issues supporting customer requirements worldwide, to include Operation New Dawn and Operation Enduring Freedom, numerous humanitarian assistance missions and a multitude of military exercises to ensure warfighter readiness and sustainment. As a follow up to the historic 2010 deployment of the DLA Distribution Expeditionary capability, in Kandahar, Afghanistan, a 2012 proposal has been developed to increase the responsiveness and flexibility to support contingency operations. Tailored equipment sets, limited in scope and deployable, would be pre-positioned in the Pacific, and either Southwest Asia or Europe (both locations allow for rapid response capability in support of EUCOM, AFRICOM, or CENTCOM reducing response time and deployment costs and minimizing reliance on strategic transportation.

MISSION

The mission of DLA Distribution is to provide effective, efficient and innovative distribution solutions for our customers. DLA Distribution receives, stores, and ships materiel from various DoD supply chains; manages and distributes maps to worldwide customers. DLA Distribution utilizes its network of distribution centers to provide relief support to the continental United States disasters as well as humanitarian efforts throughout the world.

OPERATIONAL GOALS

The operational goals established by DLA Distribution align and support the DLA Strategic Focus areas: Warfighter Support Enhancements, Stewardship Excellence, and Workforce Development. These strategic focus areas are amplified in the following operational objectives:

- Improve Distribution Performance
- Execute a Human Capital Strategy for DLA Distribution
- Provide optimized, value-added distribution solutions and services to our customers and workforce while realizing financial benefits
- Engage with customers and stakeholders to ensure plans and processes are integrated with distribution requirements

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Base Realignment and Closure efforts: DLA Distribution effectively transformed wholesale and retail storage distribution capabilities by reconfiguring the distribution network. This resulted in the divesture of 15.4 million gross square feet of space; reduced overhead costs and streamlined inventory and contributed to the proposed $2.9 billion BRAC savings.

Integrated Distribution Strategy (IDS): The IDS, approved in June 2012, is an integrated approach to distribution that has been a key enabler to optimization across the DoD: Strategic Network Optimization (SNO), the Comprehensive Materiel Response Plan (CMRP), and the Global Campaign Plan-Distribution (GCP-D). Additionally, we worked to develop solutions and produce a level of optimization that improves visibility, reduces transit time, and ultimately improves readiness. We allowed multiple geographic regions to be supported from one distribution center. Defense Distribution Depot Europe will support European Command, Africa Command (AFRICOM) and Central Command (CENTCOM) thereby reducing the need for redundant inventory at forward locations and offering the second order effect of reducing costs through fewer, more efficiently utilized facilities. The implementation of Theater Consolidation and Shipping Point (TCSPs) in Hawaii, Guam, and Japan will improve container utilization and reduce the overall transportation costs to the services. The IDS will continue to be refined and institutionalized across DLA Distribution activities.

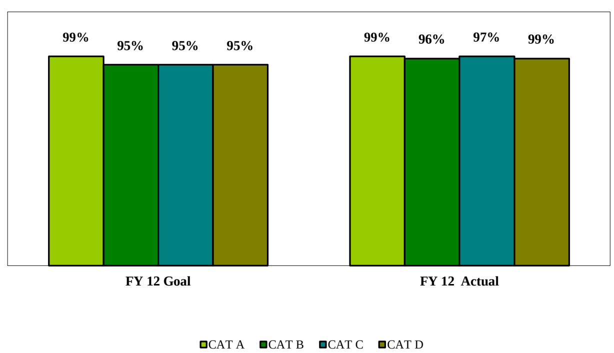
CENTCOM and AFRICOM Support: The role of DLA Distribution in providing logistics support continues to evolve in both theaters. Key accomplishments during FY 2012 include establishing a TCSP in Djibouti (June 2012) to support joint customers operating in Western Africa and, in response to a request for forces from CENTCOM, to assist with clearing container backlogs from Forward Operating Bases which were adversely affecting customer wait time. DLA Distribution guided the development of the TCSP in Deh Dadi II. Additionally, the reshaping of DLA Distribution Kuwait, Southwest Asia will reduce costs by $250.0 million over the next five years.

PROGRAM PERFORMANCE INDICATORS

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

The FY 2012 goals for inventory accuracy were: 99% for items in the high dollar strata (Category A) and 95% for the remaining three strata.
Category A: Unit Price > $1,000
Category B: Unit of Issue Not Equal to Each **OR** On-Hand Balance > 50 **AND** Extended Dollar Value < $50,000 **OR** Activity > 50 per year
Category C: On-Hand Balance < 50 **AND** Date of Last Inventory > 24 Months
Category D: All Others

INVENTORY ACCURACY: % Accuracy of Inventory Records



The FY 2012 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2012, DLA Distribution continued an aggressive schedule for the conduct of sample inventories for all categories of materiel at each of its Distribution Centers. Further, DLA Distribution is providing continuous training in the related distribution responsibilities and processes.

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

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

RECEIPTS:	FY12 TOTAL GOAL %	FY12 (YTD EOM AUG) TOTAL ACTUAL %
Induction **Percentage of receipts that met the standards against the total lines of material inducted at DLA Distribution Centers to Include:** • New Procurement Tailgate to Induction (% inducted in 24 hrs.*) • Customers Returns Tailgate to Induction (% inducted in 24 hrs.*) • RDOs Tailgate to Induction (% inducted in 24 hrs.*) • STOs Tailgate to Induction (% inducted in 48 hrs.*)	90%	91.97%

STOW:	FY12 TOTAL GOAL %	FY12 (YTD EOM AUG) TOTAL ACTUAL %
Percentage of receipts that met the standards against the total lines of material stowed at DLA Distribution Centers to include: • New Procurement Induction to Stow (% stowed in 7 days) • Customers Returns Induction to Stow (% stowed in 10 days) • RDOs Induction to Stow (% stowed in 10 days) • STOs Induction to Stow (% stowed in 10 days)	90%	94.83%

ISSUES:	FY12 TOTAL GOAL %	FY12 (YTD EOM AUG) TOTAL ACTUAL %
Percentage of issues that met the standards against the total lines of material issued to our customers to include: • High Priority Requisitions (% shipped in 1 day) • Routine Requisitions (% shipped in 3 days) • Routine Military Service Requisitions (% shipped in 3 days) • Routine DLA Requisitions (% shipped in 5 days) • Dedicated Truck (% shipped by Next Scheduled Departure)	85%	89.28%

CONTAINER UTILIZATION:	FY12 TOTAL GOAL %	FY12 (YTD EOM AUG) TOTAL ACTUAL %
Tracks the utilization of outbound surface containers	85%	70.00%

DENIALS:	FY12 TOTAL GOAL %	FY12 (YTD EOM AUG) TOTAL ACTUAL %
Percentage of issues unavailable for orders due to material shortage against the total number of issues made. *Excludes weekends	0.45%	0.42%

FINANCIAL PERFORMANCE MEASURES

DLA Distribution measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Distribution unit cost results for processing and storage cost rates (the figures are as of the end of August FY 2012).

Unit Cost Results	**FY 2012 Goal**	**FY 2012 Actual**
Unit Cost-Total Composite Processing Rate	$ 27.26	$ 29.13
Unit Cost-Covered Storage	$ 6.35	$ 6.17

The Unit Cost-Total Composite Processing Rate measures processing costs (direct, indirect, and applied overhead) relative to the number of line items (receipts and issues) processed. The actual Unit Cost-Total Composite Processing Rate was greater than the goal by $ 1.87 primarily due to processing of lower than planned number of line items. Actual number of line items processed was 2.1 million lower than planned.

The Unit Cost-Covered Storage measures the costs (direct, indirect, and applied overhead) to provide covered storage to the cubic footage used. The actual covered storage unit cost was $0.18 below the goal. This was achieved by close management of costs as actual costs were $30.9 million below plan ($400.8 million budgeted vs. $369.9 million actual). The actual covered storage workload of 59.9 million cubic feet was below plan by 1.2 million cubic feet. This was caused by inventory reductions at Inventory Control Points (ICPs) and credits issued to Army.

DLA DISPOSITION SERVICES

The DLA Disposition Services operates through a central location headquartered in Battle Creek, MI, and 109 field sites throughout the world. The group's mission is to support the Warfighter and protect the public by providing worldwide disposal management solutions of surplus DoD property. DLA Disposition sites receive, classify, segregate, demilitarize, account for, and dispose of excess materiel in accordance with all applicable laws and regulations. The reutilization of excess materiel by DoD customers reduces their need to purchase new materiel. In FY 2012, materiel with an acquisition value over $31.0 billion was turned in to Disposition Services and $1.3 billion was reutilized within DoD. DLA Disposition Services also oversees the demilitarization and disposal of the remaining property through transfers, donations, and sales, or its ultimate disposal - as in the case with hazardous waste. The business services provided by this activity group generated revenues of approximately $327.0 million in FY 2012. By year's end, this activity group employed 1,478 civilians, 13 active duty, and 215 reserve military personnel.

MISSION

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

STRATEGIC GOALS

The long-term goals established by DLA Disposition Services are consistent with the goals contained in the DLA Strategic Plan and support the Five Big Ideas. DLA Disposition Services utilizes an Annual Operating Plan (AOP) that contains initiative descriptions and plans for the current fiscal year and organizational metrics. The regularly scheduled DLA Disposition Services Strategy Councils provide a venue for evaluation of the implementation of annual objectives and ensure progress toward the vision.

The DoD disposal business model calls for a balance between maximizing the use of property with an absolute requirement to prevent it from getting into the hands of unauthorized recipients. Accordingly, goals of DLA Disposition Services include: continue providing quality support to the warfighter, mitigating risks to national security by strengthening the disposal process and inventory accountability, and ensuring taxpayer dollars are spent appropriately. DLA Disposition Services continues to balance the maximum reutilization of property with controls over potential vulnerabilities, even if it results in reduced revenues and increased costs. As such, DLA Disposition Services is committed to eliminating the release of potentially harmful property to the public.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

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

- Updated systems to allow DLA activities to automatically match DLA Disposition Services excess property assets against DLA inventory retention levels. In FY 2012, DLA's Enterprise Business System (EBS) automatically reutilized 5,132 lines of the best condition property with an Acquisition Value of $16.0 million back to stock;

- Provided electronic notifications to past customers of available property; and,

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

Overall, reutilization as a percent of total usable dispositions increased from 19.9% in FY 2011 to 20.2% in FY 2012.

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

- **Customer Support – Strategic Partnerships.** LESO transferred $546 million (Original Acquisition Value) of property to Law Enforcement Offices and 68 thousand line items. This total exceeded the entire prior fiscal year by 10% in acquisition value and 59% in requisitions. LESO briefed at various law enforcement events (11 in FY 2012) such as the National Sheriff's Association, the Navy and Air Force Strike Boards and the Airborne Law Enforcement Association. These events afford the opportunity to share what the LESO program is about, the rules, and training to customers and knowledge of property to be excess in the future (example aircraft to be retired). This had a tremendous impact on the abilities of the law enforcement community to requisition and properly maintain property through the program. LESO also hosted its 11th Annual Training

Conference where 47 states and 4 territories attended as well as all of LESO's strategic partners.

- **Program Compliance – Property Accountability**. Program Compliance Reviews (PCRs) are a regulatory requirement for each participating state (50), territory (5), and the District of Columbia. PCRs must be conducted biannually; and, in FY 2012, LESO accomplished 19 reviews. In June, the LESO changed focus to program compliance and property accountability with renewed emphasis placed on the FY 2011 high profile commodities (weapons, aircraft, tactical vehicles and watercraft) inventories and certifications. The LESO property book, the Law Enforcement Equipment Database System (LEEDS) has serious flaws since its inception (2005). Approval was received to replace the system with the Federal Excess Property Forest Service (FEPMIS), developed by the International Business Machines Corporation (IBM). Current deployment is scheduled for March 2013 and will afford greater accountability and automation of property being issued. In July, LESO was authorized to hire additional full time equivalents who will concentrate on program compliance and accountability. The end-state is to analyze and review all demil/controlled property that has been issued since inception of the program in order to have valid data to transfer into FEPMIS and have an accurate property book. Accountability and responsibility of controlled property continues to be a major focus for LESO. In addition, LESO documentation (Memorandum of Agreement, DLA Instruction and Statement of procedures) are being updated to reflect importance of compliance/accountability and standardization.

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

- **Controlled Property Branches (CPBs)**: DLA Disposition Services has 6 centralized sites in CONUS along with operations in the Pacific and Europe performing controlled property functions that provide better accountability of items coming into the disposal accounting system. All batch lots, most Local Stock Number (LSN) and Recycle Controlled Property (RCP) property are sent to these sites to verify the property's eligibility for release outside of DoD. At the beginning of FY 2011, the Controlled Property Centers (CPCs) were reorganized with operations changing from being centrally managed by a single program manager to the Local Area Managers. Therefore, in May FY 2011, the CPCs changed to CPBs under the operational control of the local Disposal Activity. In FY 2012, the sites performing CPB functions received over 10 thousand batch lots, more than 669 thousand lines of property were inspected, and over 127 thousand lines of property were determined ineligible for release outside of DoD control.

- **Controlled Property Verification Office (CPVO):** The Controlled Property Verification Office (CPVO) has refined the processes to review items destined for release to the public through a series of reviews including: 100% review of National Stock Numbers received (worldwide - weekly), delivery orders from the field sites, Q-Tool (sales partner listing) and the sales partner's web site of items offered for sale. The CPVO has achieved a 93% approval rate for Demilitarization (Demil) challenges and maintains timeliness in its review of delivery orders. In FY 2012, the CPVO reviewed over 1.3 million items and removed over 17 thousand items from sale. The CPVO developed a standardized methodology for performing reviews and continually reviews the accuracy of assigned demilitarization codes at all stages of the review process, to include challenging the code assignment when warranted. To maintain the data integrity of the tool, the CPVO manages the Controlled Property Search Tools, i.e., Do Not Sell list, Safety Alert and Latent Defects (SALD), Decision Tables, F-14 list, and Nuclear Weapons Related Material searches.

- **Long Term Storage (LTS) Facility:** DLA Disposition Services established a LTS facility at the DLA Land and Maritime to retain serviceable Demil Code B Munitions List Items and Demil Code Q Commerce Control List Items. Because these items were determined to be sensitive for reasons of national security, they are no longer eligible for transfer, donation, or sale. Since the implementation of the LTS in January 2009, DLA Disposition Services has reutilized $143.1 million worth of property (approximately 6% of lines and 5% acquisition value) with no requisitions pending. LTS is filling up its rack and bulk storage space and is planning for additional infrastructure at DLA Land and Maritime. However, additional warehouse space (outside of DLA Land and Maritime) will be necessary in the DLA network if destruction authority is not authorized. Currently DLA Disposition Services is leveraging distribution storage to slow the fill rate of the LTS.

- **Scrap Venture (SV):** The Scrap Venture (SV) contract was modified to add the additional sites of Puerto Rico and the U.S. Virgin Islands to the SV property stream. Scrap operations were implemented at both sites successfully within 60 days of notification. A modification was made to send Mobile Communication and Media Devices (MCMD) to the SV contract versus the electronics-demanufacturing contract for destruction. MCMDs include cell phones, personal digital assistants (PDAs) and smart phones (such as BlackBerry-branded devices). SV is required to wipe/remove all devices of all data to mitigate the release of Personally Identifiable Information or classified information. They must also destroy and remove any government documents, stickers and labels prior to resale. The Sales Contracting Officer is sent a monthly report including a listing reflecting the MCMDs received and processed to include number, Manufacturer, Model and Serial number and the final disposition of each item either as being sold or destroyed.

- **Usable Property Sales Term Contract:** DLA Disposition Services reduced its usable sales contract exposure by awarding a contract that transfers complete ownership of property (in lieu of the Government retaining a downstream interest) and significantly limits contractor operations at DLA Disposition Services facilities. The sales contract has performance based incentives to prevent the release of controlled property. All property, prior to being sold, is checked to ensure it is safe for sale. In addition, all property that is controlled or expected to be controlled is added to a "Do Not Sell" list that is provided to the contractor to systemically remove property from their marketing or retrieve items in their inventory for return to DLA Disposition Services. Filters to catch controlled property prior to it being released to the general public are happening daily. These filters have returned F-14 items and prevented hundreds of miscoded demilitarized items from being released.

Safeguarding Excess/Surplus Property: The list of security related facility projects continues to grow yearly in both visibility and numbers. Each fiscal year DLA Disposition Services prioritizes and funds multiple projects and in FY 2012 DLA Disposition Services invested approximately $2.1 million in 27 security-related facilities projects.

Voluntary Protection Plan (VPP): Employees and management continue to develop a culture that demonstrates it cares first for the employee's well-being. Management has instilled a higher sense of awareness on safety, looking out for each other and becoming more mindful of mishap reporting with VPP. Through the VPP process, DLA Disposition Services has noticed an increase in management involvement, specifically in the quarterly self-inspections, providing more safety training in staff meetings (mini briefs given to employees), an increased completion of the safety training scheduled through the Learning Management System (LMS) for employees and management and a reduction in mishaps The Marketing Committee developed several educational videos on safety issues that we face throughout the building, the self-inspection committee developed a training power point. The Job Hazard Analysis (JHA) committee developed numerous JHAs for the facility, and the facility continues lay the ground work to create addition committees such as the Mishap Investigation Committee. Eight field offices are currently in VPP along with their host. These DLA Disposition Services Sites are in various stages, but our partnerships with DLA Distribution, the other PLFAs, and our DoD hosts continue to grow forming more trusting relationships and enhancing cooperation both internally and externally as we participate in more of the meetings and committees. Disposition Services views VPP as a strategy for success.

The HDI Federal Center at Battle Creek, MI has completed Stage III of the VPP process and is currently working to prepare for the Occupational Safety and Health Act audit to be performed in October FY 2013. Additionally, in FY 2012, our DLA Disposition Services field site in San Joaquin, CA and Norfolk, VA officially received VPP Star status.

Environmental Management System (EMS): The Disposition Services' EMS targets all facets of the disposition enterprise and actively supports the DoD Strategic Sustainability Performance Plan (SSPP). Progress towards supporting the DoD SSPP in FY 2012 focused on improving vehicle fleet management, expanding requirements for bio-based products in service contracts and using innovative approaches to reduce solid waste disposal and environmental impact. Efforts to improve vehicle fleet management transformed our vehicle fleet from one which contained no alternative fuel vehicles (AFVs) in FY 2005 to one in which AFVs now comprise 59.7% of the total US fleet. Progress towards greening operational contracts during FY 2012 included the award of the multiple bio-based contracts for maintenance of material handling equipment resulting in a total of 12 bio-based contracts currently awarded. Disposition Services sites continue to hold innovative donation events to assist host facilities in the reduction of landfill use through the donation of excess furniture to the base community and qualifying activities. Individual Disposition Services sites also teamed with host facilities to coordinate efforts to recycle mattresses when the host facility funds the recycling costs. A reduction in air emissions and the elimination of the need for an air permit was achieved at Anniston through the conversion of diesel operated shredders to electric.

Continuous Process Improvement (CPI): CPI is a valuable tool in achieving effectiveness and efficiency. DLA Disposition Services' goal is to make our processes more efficient, drive down costs where possible, increase our performance and customer support and meet our diverse customers' needs while continuing to maintain our focus on uncompromised protection of national security. DLA Disposition Services' continuous improvement approach is to weave an analytical, self-improving mindset throughout our culture, while embracing both formal and informal CPI thought processes. CPI is used to actively transform our workplace and Enterprise activities to achieve our vision as "the preferred choice for world-wide reuse and disposal solutions, and an integral partner in safeguarding national security and improving efficiency and effectiveness in the global supply chain". DLA Disposition Services and its field offices around the world have conducted numerous CPI projects including collaborative integrated projects with other DLA Primary Level Field Activities. To date, FY 2012 projects have included 1) Optimum Receiving Process, 2) Leaning the DEMIL Process, and 3) Camouflage Net Disposal Process with execution planned in FY 2013.

Targeted Program Oversight: DLA Disposition Services has a rigorous Compliance Assistance Program designed to evaluate the effectiveness and compliance with existing regulations and policy, ensure our internal controls are in place and working, and identify areas

in need of improvement/controls. The program consists of two primary levels of oversight: Self-Assessments (SAs) and Effectiveness Reviews. Each level of oversight has specific elements designed to provide a comprehensive review:

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

- **Effectiveness Reviews (ER) –** ERs are independent reviews of field sites' effectiveness and compliance with existing operational and environmental regulations and policies. ERs can be tailored to focus on specific DLA Disposition Services performance areas or provide a comprehensive evaluation by reviewing processes, documentation, and inventory. Sites receiving ERs are provided minimal advance notice in order to provide

DLA Disposition Services a better indicator of compliance and sustained performance. Baseline Effectiveness Reviews are also conducted at sites that have new leadership. ER Teams are comprised of personnel from DLA Headquarters, Disposition Services, and field sites. At the conclusion of each ER, an out-brief of the results, impact, and recommended corrective actions are provided to the DLA Disposition leadership. The out-brief provides visibility of significant issues to the DLA Disposition Services leadership early in the assessment process ensuring expeditious resolution. DLA Disposition Services continues to maintain an aggressive ER schedule and has conducted 52 ERs in FY 2012. Additionally, follow-up reviews are conducted at those sites that did not meet standards during the initial ER.

Reutilization Business Integration (RBI): In FY 2013, DLA Disposition Services expects to complete rollout of the Reutilization Business Initiative (RBI). This will eliminate the stand-alone system (Disposal Automated Information System - DAISY) employed for the last twenty years and integrate the Disposition Services functions into the core DLA business systems - EBS and Distribution Standard System (DSS). A notable feature of this system will be the ability to record and utilize actual customer demand information to determine the proper retention of assets for advertising to potential customers.

Raising Military Customer Awareness: Major Command Representatives continually raise the Service understanding of DLA Disposition Services operations and services provided. This is accomplished by acting as guest speakers at Service level events (i.e., Army Logistics Management Seminars, Worldwide Logistics Workshops, Air Force Institute of Technology, Marine Corp Industrial Support Group), in their Service schoolhouses (Army logistics University, Joint Force Command Staff College, Air Force Communication Agency, and Navy Supply School), and at Expositions/Symposiums (Association of the United States Army, Modern Day Marine West and South, Navy Fleet Maintenance and Modernization). The DLA Disposition Services has also inserted itself into the review of both Joint and Service publications where possible, to identify the importance of disposal and how DLA Disposition Services fits into the Logistics Supply Chain and Life Cycle Management concepts. This effort is designed to increase the understanding of the Military Service customers as to the importance of planning overall disposal operations as a logistics function, and the potential for continuous benefits that can be derived from the services DLA Disposition Services provides.

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

- **Contingency Operations Support (CENTCOM):** DLA Disposition Services supports the Warfighter in Kuwait and Afghanistan by providing a Civilian and Military workforce to provide disposition services. In Iraq, we support the Department of State with a Civilian workforce. By the end of FY 2012, four fully functional field sites remain in the CENTCOM Area of Responsibility (AOR), staffed with civilian personnel and military reservists. These locations receive and process excess and surplus usable property for reutilization, donation, or sale; perform and oversee demilitarization of military equipment items and the disposal of scrap; as well as, provide disposition solutions for hazardous material/waste in an environmentally safe manner. As a vital part of supply chain management, DLA Disposition Services has and will continue to expand disposition services throughout the AOR to meet the needs and demands of its customer, the warfighter. The redistribution and disposition of property are viewed as critical aspects of a responsible drawdown of military operations in Iraq, the transition to the Department of State mission and the support required by a ramp-up of military operations in Afghanistan. Collectively, DLA Disposition Services operations in the CENTCOM AOR yielded significant workload during FY 2012.

In FY 2012, DLA Disposition Services closed four sites in Iraq and continues to provide support to the Department of State. As a result, scrap receipts in the AOR totaled 290.7 million pounds; scrap removals totaled 291.2 million pounds; and the warfighter reutilized more than 17 thousand pieces of property. In keeping with their mission to safeguard national security, DLA Disposition Services demilitarized over 63 thousand items in the AOR in FY 2012 no longer needed for national defense.

Disposal Remediation Teams (DRTs): The DRTs, comprised of DLA Joint Reserve personnel, were instrumental in meeting the customer requirements in a very fluid operational environment. In FY 2012, DLA Disposition Services deployed 79 Navy, Army, and Air Force reservists to DRT locations spread throughout three countries: Iraq, Afghanistan, and Kuwait. These members served as Disposal Service Representatives and operated in an expeditionary manner by going to Forward Operating Bases to support the customer in their environment and location. Our DRTs, and volunteers from other DLA field activities that deploy for us, first take a two-week Contingency course comprised of DLA Disposition Operations and Demil. They are sent as part of their mobilization itinerary to a Disposition Operation's site to perform two weeks of OJT to practice the skills learned in these classes before they deploy. Our reservists continue to receive accolades for their outstanding performances in support of DLA Disposition Services.

Enhanced DLA Disposition Services Intern Program: Faced with an aging workforce, DLA Disposition Services utilizes an Intern Training Program to ensure that the knowledge base is transferred to a trained employee prior to an individual's retirement. The program includes completion of mandatory formal training courses, on-the-job training, cross training, and rotational training within a 2-year period. In the past three years, DLA Disposition Services has added 44 DLA Interns to its Property Disposal, Environmental, and Contracting tracks (14 in 2010, 16 in 2011, and 14 in 2012). All new interns receive their first year of training at DLA Disposition Services headquarters in Battle Creek, MI. Their second/final year of training will be at their permanent placement location. Upon completion of the program, they will remain in place as DLA Disposition Services employees. In reviewing the past 6 years of intern classes, 83% of interns are still working for DLA, and 76% of our Intern Graduates with time in grade have been promoted. DLA has initiated a centralized recruitment effort for the hiring of Corporate Interns. DLA Disposition Services will participate in this effort beginning in FY 2013.

PROGRAM PERFORMANCE INDICATOR

Reutilization/Transfer/Donation (R/T/D) rate: This indicator represents the aggregate number of line items of the property reutilized, transferred, and donated expressed as a percentage of the total line items disposed. The indicator applies to the available assets that are economically reused. It addresses disposal via reutilization by another defense customer, transfer to another federal agency, or donation to an eligible state, local government, or non-profit organization. R/T/D dispositions, as a percentage of total dispositions, indicate support provided to DoD, Federal government, and state and local agencies. Customer utilization of these programs increases troop readiness, avoids new procurement costs, and provides needed items to agencies at no cost. In FY 2012, DLA Disposition Services successfully reutilized, transferred, or donated over 210,000 line items of excess property for an R/T/D rate of about 20%.

- **Operations Enduring Freedom and Iraqi Freedom Reutilization:** Total reutilization supporting these two contingencies surpassed 26,000 line items with a value of $572.0 million. Examples of the types of items issued in support of these operations include vehicles, tanks, trucks, and body armor.

- **Humanitarian Assistance/Disaster Relief:** DLA Disposition Services supported humanitarian assistance and disasters at home and abroad. In FY 2012, DLA Disposition Services Issued 5,528 line items with a value of $35.0 million to DOD Humanitarian Assistance Program (DOD HAP);

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

- Marketing high dollar, good condition items through scrolling photographs on the R/T/D website. In FY 2012, DLA Disposition Services received 396 requisitions for property with an original acquisition value of $30.9 million.

- Pushing (to past customers) inventory alerts of the availability of same/similar items that they previously purchased. In FY 2012, DLA Disposition received 2,834 requisitions for this same type property with an original acquisition value of $56.6 million.

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

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

FINANCIAL PERFORMANCE MEASURES

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

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

- Receiving – cost associated with the stock, store and issue (logistics) of useable property;
- Reutilization/Transfer/Donation – cost associated with reutilizing, transferring and donating of excess personal property divided by line items of property; and,
- Useable Sales – cost associated with the public sale of useable surplus personal property.

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

- Proper disposal of hazardous waste – cost to dispose (environmentally regulated); and
- Non-hazardous item destruction – cost to destroy non-hazardous items.

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

Financial Performance Measures	**FY 2012 Goal**	**FY 2012 Actual**
Cost per line item	$39.04	$39.81
Cost per pound	$0.09	$0.09

The $0.77 increase to the unit cost per line item for Receipts, RTD and Sales was driven by lower than projected workload volumes. Actual workload was at 83 percent of plan. DLA Disposition Services processed 4.0 million line items in FY 2012, which was 0.840 million less than expected. The total cost was $160.0 million, $29.7 million below goal.

The unit cost for Hazardous Waste and Disposal and Recycling was on plan, at $0.09 per pound. Hazardous Waste and Disposal and Recycling were down 130 million pounds over the FY 2012 goal of 1,983 million pounds, processing 1.721 billion pounds of scrap and hazardous waste. Although total pounds were down, the total costs for FY 2012 remained on plan.

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2012 and 2011

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING BALANCE SHEET
For the Years September 30, 2012 and 201
(In Thousands)

	2012	2011
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,517,843	$ 1,594,766
Other Assets (Note 6)	124,925	125,357
Total Intragovernmental Assets	1,642,768	1,720,123
Cash and Other Monetary Assets (Note 7)	5,377	6,728
Accounts Receivable, Net (Note 5)	1,202,123	745,239
Inventory and Related Property, Net (Note 9)	21,354,354	21,587,191
General Property, Plant and Equipment, Net (Note 10)	1,604,306	1,539,643
Other Assets (Note 6)	31,657	28,843
TOTAL ASSETS	$ 25,840,584	$ 25,627,767
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 131,058	$ 116,492
Other Liabilities (Note 15 & 16)	675,607	44,548
Total Intragovernmental Liabilities	806,665	161,040
Accounts Payable (Note 12)	2,451,776	3,930,943
Military Retirement and Other Federal Employment Benefits (Note 17)	235,666	221,119
Environmental and Disposal Liabilities (Note 14)	195,003	86,326
Other Liabilities (Note 15 & Note 16)	210,615	210,968
TOTAL LIABILITIES	3,899,725	4,610,396
NET POSITION		
Cumulative Results of Operations - Other Funds	21,940,859	21,017,371
TOTAL NET POSITION	21,940,859	21,017,371
TOTAL LIABILITIES AND NET POSITION	$ 25,840,584	$ 25,627,767

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011
(In Thousands)

		2012		2011
Program Costs				
Gross Costs	$	52,075,452	$	48,225,924
(Less: Earned Revenue)		(50,449,319)		(49,949,770)
Net Program Costs Including Assumption Changes		1,626,133		(1,723,846)
Net Cost of Operations	$	1,626,133	$	(1,723,846)

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,017,372	$ 19,489,932
Beginning balances, as adjusted	21,017,372	19,489,932
Budgetary Financing Sources:		
Appropriations used	1,400,627	507,852
Nonexchange revenue	(254)	(1,636)
Transfers-in/out without reimbursement	(1,023)	(1,483,000)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	975,690	588,709
Imputed financing from costs absorbed by others	174,580	191,669
Total Financing Sources	2,549,620	(196,406)
Net Cost of Operations (+/-)	1,626,133	(1,723,846)
Net Change	923,487	1,527,440
Cumulative Results of Operations	21,940,859	21,017,372
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	400,627	507,852
Appropriations transferred-in/out	1,000,000	-
Appropriations used	(1,400,627)	(507,852)
Net Position	$ 21,940,859	$ 21,017,372

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years September 30, 2012 and 2011
(In Thousands)

	2012	2011 Restated
Budgetary Resources		
Recoveries of prior year unpaid obligations	$ 1,712,918	$ 1,895,369
Other changes in unobligated balance (+ or -)	(712,918)	(3,178,369)
Unobligated balance from prior year budget authority, net	1,000,000	(1,283,000)
Contract Authority (discretionary and mandatory)	51,635,241	45,781,153
Spending Authority from offsetting collections (discretionary and mandatory)	(1,000,000)	1,283,000
Total Budgetary Resources	$ 51,635,241	$ 45,781,153
Status of Budgetary Resources:		
Obligations Incurred	$ 51,635,241	$ 45,781,153
Total Budgetary Resources	$ 51,635,241	$ 45,781,153

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years September 30, 2012 and 2011
(In Thousands)

	2012	Restated 2011
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	$ 20,890,072	$ 20,965,203
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(8,065,926)	(7,806,971)
Obligated balance start of year (net), before adjustments (+ or -)	12,824,146	13,158,232
Obligated balance, start of year (net), as adjusted	12,824,146	13,158,232
Obligations incurred	51,635,241	45,781,153
Outlays (gross) (-)	(46,180,946)	(43,960,914)
Change in uncollected customer payments from Federal Sources (+ or-)	(1,656,675)	(258,955)
Recoveries of prior year unpaid obligations (-)	(1,712,918)	(1,895,369)
Obligated balance, end of year		
Unpaid Obligations, end of year (gross)	24,631,450	20,890,072
Uncollected customer payments from Federal sources, end of year (-)	(9,722,602)	(8,065,926)
Obligated balance, end of year	$ 14,908,848	$ 12,824,146
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 50,635,241	$ 47,064,153
Actual offsetting collections (discretionary and mandatory) (-)	(44,224,847)	(44,864,153)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(1,656,675)	(258,955)
Budget Authority, net (discretionary and mandatory)	4,753,719	1,941,044
Outlays, gross (discretionary and mandatory)	46,180,946	43,960,914
Actual offsetting collections (discretionary and mandatory) (-)	(44,224,847)	(44,864,153)
Outlays, net (discretionary and mandatory)	1,956,099	(903,239)
Agency Outlays, net (discretionary and mandatory)	$ 1,956,099	$ (903,239)

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

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Defense Logistics Agency
Working Capital Fund

DLA Document Services Activity Group Overview

DLA DOCUMENT SERVICES ACTIVITY GROUP

The DLA Document Services is responsible for printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated services to include: document workflow, conversion, electronic storage and output, and distribution of hard copy and digital information. DLA Document Services provides time sensitive, competitively priced, high quality products and services that are either produced in-house or procured commercially. DLA Document Services manages its mission through a headquarters, located in Mechanicsburg, PA, and a worldwide network of 152 production facilities. During FY 2012, DLA Document Services earned more than $261.0 million in revenue and employed 831 civilians at year-end. Major customers were: Air Force (17.8%), Navy (27.2%), Army (23.1%), Defense Agencies (27%), and non-DoD customers (4.9%).

MISSION

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

STRATEGIC GOALS

DLA Document Services is committed to the following goals:

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

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Multifunction Device (MFD) Indefinite Delivery, Indefinite Quantity Contract (IDIQ) was awarded to four vendors with the use of the reverse auction process. The reverse auction allows acquisition officers to post the requirement, then through a series of bids and best and final offer, the low price bid is determined and the delivery order is placed. The MFDs that scan, copy, fax and print are the key elements of the organization's Equipment Management Solutions program, which places these devices in the customer work spaces. The first reverse auction was completed in November 2011 and resulted in significant savings. The IDIQ award was designed to provide delivery of the required devices to the customer commands and units at much more rapid pace than ever before. The procurement acquisition lead time had been reduced from approximately 4.5 months to less than one month.

TRICARE Health Program – TRICARE is the healthcare program for Uniformed Service members, retirees and their families. DLA Document Services is saving money for the Department of Defense in the printing and distribution of documents in support of the TRICARE military healthcare program. DLA Document Services produces letters, identification cards and other documents sent from the Defense Manpower Center at a cost savings of almost $1 million per year. DLA Document Services has developed 52 unique "digital templates", and inserts the unique variable data for each TRICARE member's documents, creating a Portable Document File used to print the final documents. The file then goes to high-speed color printers, followed by an automated mailing process of folding, inserting and applying postage. Hundreds of thousands of unique letters are created, printed and mailed, in a secure manner, to TRICARE beneficiaries each month. The Great Lakes team processes approximately 4.2 million TRICARE letters and related documents per year while the San Diego team produces approximately 2.8 million of the medical program's identification cards.

Enterprise Content Management - The installation of Enterprise Content Management Suite 2010 has been finalized at the DLA Document Services at Oklahoma City, Oklahoma office group, an electronic document management Center of Excellence. The suite brings the full force of electronic document management capabilities to bear for all DOD customers who are looking for such a solution. The solution sets in a fully compliant Information Assurance/Information Technology and virtualized environment that provides full provisioning of its capability. ECM 2010 is a fully compliant Records Management system per DOD 5015.2 and registered with the Joint Interoperability Test Command.

PROGRAM PERFORMANCE INDICATORS

Quality of Finished Product: This performance metric measures customer satisfaction with quality of finished product as a percentage of customers ranking DLA Document Services quality performance as "satisfied" or "very satisfied." DLA Document Services uses a survey, professionally prepared and administered by an independent entity, to determine quality of finished product rating. The last completed survey indicated that DLA Document Services achieved a quality of finished product rating of 97%, exceeding its goal of 95%.

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking DLA Document Services' performance as "satisfied" or "very satisfied." DLA Document Services uses a survey professionally prepared and administered by an independent commercial entity to determine an overall customer satisfaction rating. The last completed survey indicated that DLA Document Services achieved a customer satisfaction rating of 93%, exceeding its goal of 90%.

On-Time Delivery (In-house Production): This performance metric measures the timeliness of customer order completion. The performance metric is calculated by dividing the total number of orders filled on time by a DLA Document Services owned and operated production facility (in-house) by the total number of orders filled by these facilities. DLA Document Services achieved an on-time delivery rate of 98.7%, exceeding its goal of 98%.

FINANCIAL PERFORMANCE MEASURES

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

Unit Cost Results	FY 2012 Goal	FY 2012 Actual
Unit Cost per In-House Production Unit	.0566	0.0782

DLA Document Services produced 34% fewer in-house units than planned (1,631 million estimated actual versus 2,467 million planned). In addition, estimated actual in-house costs were almost 9% lower than planned ($127.6 million estimated actual versus $139.6 million planned). DLA Document Services lower costs were not commensurate with the rapid decrease of in-house units, thus, DLA Document Services was not able to reach its unit cost goal. The in-house workload mix had also changed, producing higher per unit cost production lines. Smaller commercial program execution caused more overhead to be distributed to in-house total costs. As a result, DLA Document Services unit cost increased by 38%.

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 $9.8 million.

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Defense Logistics Agency
Working Capital Fund

DLA Document Services Activity Group

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2012 and 2011

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 41,926	$ 55,807
Total Intragovernmental Assets	41,926	55,807
Accounts Receivable, Net (Note 5)	564	478
Inventory and Related Property, Net (Note 9)	2,931	2,523
General Property, Plant and Equipment, Net (Note 10)	24,338	19,857
Other Assets (Note 6)	4	4
TOTAL ASSETS	$ 69,763	$ 78,668
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 3,290	$ 5,030
Other Liabilities (Note 15 & 16)	1,547	1,124
Total Intragovernmental Liabilities	4,837	6,154
Accounts Payable (Note 12)	23,104	42,830
Military Retirement and Other Federal Employment Benefits (Note 17)	10,121	6,699
Other Liabilities (Note 15 & Note 16)	5,484	5,619
TOTAL LIABILITIES	$ 43,546	$ 61,302
NET POSITION		
Cumulative Results of Operations - Other Funds	26,216	17,365
TOTAL NET POSITION	$ 26,216	$ 17,365
TOTAL LIABILITIES AND NET POSITION	$ 69,763	$ 78,668

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
Program Costs		
Gross Costs	$ 283,477	$ 308,756
(Less: Earned Revenue)	(262,414)	(294,824)
Net Program Costs Including Assumption Changes	21,063	13,932
Net Cost of Operations	$ 21,063	$ 13,932

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2012 and 2011
(In Thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 17,365	$ (27)
Beginning balances, as adjusted	17,365	(27)
Budgetary Financing Sources:		
Transfers-in/out without reimbursement	-	200,000
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	24,487	(174,978)
Imputed financing from costs absorbed by others	5,424	6,303
Total Financing Sources	29,913	31,325
Net Cost of Operations (+/-)	21,063	13,932
Net Change	8,851	17,392
Cumulative Results of Operations	26,216	17,365
Net Position	$ 26,216	$ 17,365

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years September 30, 2012 and 2011
(In Thousands)

	2012	Restated 2011
Budgetary Resources		
Unobligated balance brought forward, October 1	$ 127,423	$ (41,102)
Unobligated balance brought forward, October 1, as adjusted,	127,423	(41,102)
Recoveries of prior year unpaid obligations	20,410	40,211
Other changes in unobligated balance (+ or -)	-	(5)
Unobligated balance from prior year budget authority, net	147,832	(895)
Contract Authority (discretionary and mandatory)	1,269	740
Spending Authority from offsetting collections (discretionary and mandatory)	269,011	471,779
Total Budgetary Resources	$ 418,112	$ 471,624
Status of Budgetary Resources:		
Obligations Incurred	$ 301,682	$ 344,201
Unobligated balance, end of year		
Apportioned	116,430	127,423
Total unobligated balance, end of year	116,430	127,423
Total Budgetary Resources	$ 418,112	$ 471,624

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the years September 30, 2012 and 2011
(In Thousands)

	2012	Restated 2011
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	$ 144,481	$ 157,962
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(85,606)	(102,915)
Obligated balance start of year (net), before adjustments (+ or -)	58,875	55,047
Obligated balance, start of year (net), as adjusted	58,875	55,047
Obligations incurred	301,682	344,201
Outlays (gross) (-)	(300,638)	(317,470)
Change in uncollected customer payments from Federal Sources (+ or-)	6,203	17,310
Recoveries of prior year unpaid obligations (-)	(20,410)	(40,211)
Obligated balance, end of year		
Unpaid Obligations, end of year (gross)	125,117	144,481
Uncollected customer payments from Federal sources, end of year (-)	(79,402)	(85,606)
Obligated balance, end of year	$ 45,714	$ 58,875

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	2012	Restated 2011
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 270,280	$ 472,519
Actual offsetting collections (discretionary and mandatory) (-)	(276,149)	(292,448)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	6,203	17,310
Budget Authority, net (discretionary and mandatory)	334	197,381
Outlays, gross (discretionary and mandatory)	300,638	317,470
Actual offsetting collections (discretionary and mandatory) (-)	(276,149)	(292,448)
Outlays, net (discretionary and mandatory)	24,489	25,022
Agency Outlays, net (discretionary and mandatory)	$ 24,489	$ 25,022

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

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Defense Logistics Agency
General Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2012 and 2011

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,122,629	$ 944,371
Accounts Receivable (Note 5)	29,182	9,634
Other Assets (Note 6)	0	3
Total Intragovernmental Assets	1,151,811	954,008
Accounts Receivable, Net (Note 5)	(1)	411
General Property, Plant and Equipment,Net (Note 10)	653,351	609,646
Other Assets (Note 6)	1,595	3,512
TOTAL ASSETS	$ 1,806,756	$ 1,567,577
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 4,002	$ 4,045
Other Liabilities (Note 15 & 16)	4,730	7,480
Total Intragovernmental Liabilities	8,732	11,525
Accounts Payable (Note 12)	23,612	21,015
Military Retirement and Other Federal Employment Benefits (Note 17)	5,441	5,645
Environmental and Disposal Liabilities (Note 14)	227,452	189,598
Other Liabilities (Note 15 and Note 16)	4,596	4,752
TOTAL LIABILITIES	$ 269,833	$ 232,535
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	1,091,283	895,074
Cumulative Results of Operations - Other Funds	445,640	439,968
TOTAL NET POSITION	$ 1,536,923	$ 1,335,042
TOTAL LIABILITIES AND NET POSITION	$ 1,806,756	$ 1,567,577

The accompanying notes are an integral part of these statements

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
PROGRAM COSTS		
Gross Costs	$ 776,465	$ 650,609
(Less: Earned Revenue)	(92,809)	(53,784)
Net Program Costs Including Assumption Changes	683,656	596,825
NET COST OF OPERATIONS	$ 683,656	$ 596,825

The accompanying notes are an integral part of these statements

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 439,968	$ 248,498
Prior Period Adjustments:		
Beginning balances, as adjusted	439,968	248,498
Budgetary Financing Sources:		
Appropriations used	810,504	789,251
Transfers-in/out without reimbursement	0	16,834
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(124,528)	(20,737)
Imputed financing from costs absorbed by others	3,352	2,947
Total Financing Sources	689,328	788,295
Net Cost of Operations (+/-)	683,656	596,825
Net Change	5,672	191,470
Cumulative Results of Operations	$ 445,640	$ 439,968
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 895,074	$ 920,873
Beginning balances, as adjusted	895,074	920,873
Budgetary Financing Sources:		
Appropriations received	1,001,798	802,220
Appropriations transferred-in/out	18,614	(2,053)
Other adjustments (rescissions, etc)	(13,699)	(36,715)
Appropriations used	(810,504)	(789,251)
Total Budgetary Financing Sources	196,209	(25,799)
Unexpended Appropriations	1,091,283	895,074
Net Position	$ 1,536,923	$ 1,335,042

The accompanying notes are an integral part of these statements

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011
(In Thousands)

		2012		2011
Budgetary Resources:				
Unobligated balance brought forward, October 1	$	274,703	$	232,004
Unobligated balance brought forward, October 1, as adjusted, as Adjusted		274,703		232,004
Recoveries of prior year unpaid obligations		55,364		90,793
Other changes in unobligated balance (+ or -)		(12,301)		(9,571)
Unobligated balance from prior year budget authority, net		317,766		313,226
Appropriations (discretionary and mandatory)		1,019,014		789,857
Spending Authority from offsetting collections (discretionary and mandatory)		58,005		56,268
Total Budgetary Resources	$	1,394,785	$	1,159,351
Status of Budgetary Resources:				
Obligations Incurred	$	1,118,908	$	884,643
Unobligated balance, end of year				
Apportioned		250,469		257,892
Unapportioned		25,408		16,816
Total unobligated balance, end of year		275,877		274,708
Total Budgetary Resources	$	1,394,785	$	1,159,351

The accompanying notes are an integral part of these statements

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the Years Ended September 30, 2012 and 2011
(In Thousands)

	2012	2011
Change in Obligated Balance:		
Unpaid obligations, brought forward, October 1 (gross)	$ 687,978	$ 766,255
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(18,311)	(22,374)
Obligated balance start of year (net), before adjustments (+ or -)	669,667	743,881
Obligated balance, start of year (net), as adjusted	669,667	743,881
Obligations incurred	1,118,908	884,643
Outlays (gross) (-)	(867,069)	(872,128)
Change in uncollected customer payments from Federal Sources (+ or-)	(19,391)	4,063
Recoveries of prior year unpaid obligations (-)	(55,364)	(90,792)
Obligated balance, end of year		
Unpaid Obligations, end of year (gross)	884,453	687,978
Uncollected customer payments from Federal sources, end of year (-)	(37,702)	(18,311)
Obligated balance, end of year	$ 846,751	$ 669,667
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 1,077,019	$ 846,125
Actual offsetting collections (discretionary and mandatory) (-)	(38,615)	(60,330)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(19,391)	4,063
Budget Authority, net (discretionary and mandatory)	1,019,013	789,858
Outlays, gross (discretionary and mandatory)	867,069	872,128
Actual offsetting collections (discretionary and mandatory) (-)	(38,615)	(60,330)
Outlays, net (discretionary and mandatory)	828,454	811,798
Agency Outlays, net (discretionary and mandatory)	$ 828,454	$ 811,798

The accompanying notes are an integral part of these statements

Note: In accordance with OMB Circular No. A-136, Financial Reporting Requirements, the presentation of the SBR has been changed to better align to the SF 133, Report on Budget Execution and Budgetary Resources. Effective in 1st Quarter, the comparative format for SBR includes FY 2011 data restated in the FY 2012 format.

Defense Logistics Agency
General Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2012 and 2011

Note 1. Significant Accounting Policies

A. Basis of Presentation

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

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

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

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

B. Mission of the Reporting Entity

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

The DLA provides supply support, technical/logistics services and quality support to all branches of the Military and other nonDoD customers. The DLA activity groups executing these funds include DLA Supply Chain, DLA Energy, and DLA Document Services. The Supply Chain is comprised of: Land and Maritime, DLA Aviation, DLA Troop Support, DLA Distribution, and

DLA Disposition Services. The DLA also manages the DLA Strategic Materials fund that is not included in these financial statements as they are a separate reporting entity for financial statement purposes.

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

C. Appropriations and Funds

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

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

These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at DoD Information Related to the American Recovery and Reinvestment Act of 2009.

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

The Research, Development, Test, and Evaluation (RDT&E) appropriation finances the development of major upgrades that increase the performance of existing systems, the purchase of test articles, and the developmental testing and/or initial operational test and evaluation prior to system acceptance. In addition, it supports the American Recovery and Reinvestment Act (Public Law 111-5) for Energy Conservation Investment Program (ECIP) projects.

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

The Military Construction (MILCON) appropriation finances the construction of facilities to support DLA's logistic support mission to include DoD fuel infrastructure projects (strategic refueling mission, environmental concerns, and fuel operations). The DLA suballots MILCON funds to certain entities such as the Air Force, Navy and U.S. Army Corps of Engineers (USACE) for the execution of specific authorized programs. Also, it supports the American Recovery and Reinvestment Act (Public Law 111-5) for ECIP projects.

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

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

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

F. Recognition of Expenses

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

G. Accounting for Intragovernmental Activities

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

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

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

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

H. Transactions with Foreign Governments and International Organizations

Not Applicable to DLA GF.

I. Funds with the U.S. Treasury

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

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

J. Cash and Other Monetary Assets

Not Applicable to DLA GF.

K. Accounts Receivable

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

L. Direct Loans and Loan Guarantees

Not Applicable to DLA GF.

M. Inventories and Related Property

Not Applicable to DLA GF.

N. Investments in U.S. Treasury Securities

Not Applicable to DLA GF.

O. General Property, Plant and Equipment

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

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

P. Advances and Prepayments

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

Q. Leases

Not Applicable to DLA GF.

R. Other Assets

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

S. Contingencies and Other Liabilities

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

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

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

T. Accrued Leave

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

U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

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

V. Treaties for Use of Foreign Bases

Not Applicable to DLA GF.

W. Undistributed Disbursements and Collections

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

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

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

X. Fiduciary Activities

Not Applicable to DLA GF.

Y. Military Retirement and Other Federal Employment Benefits

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

Z. Significant Events

Not Applicable to DLA GF.

Note 2. Nonentity Assets

As of September 30	2012	2011
(Amounts in thousands)		
Nonfederal Assets		
Accounts Receivable	$ 0	$ 301
Total Nonfederal Assets	0	301
Total Nonentity Assets	$ 0	$ 301
Total Entity Assets	$ 1,806,756	$ 1,567,276
Total Assets	$ 1,806,756	$ 1,567,577

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

Total Nonentity Assets for DLA General Fund is accounts receivable for the Operations and Maintenance Appropriation pertaining to civilian personnel payroll, travel debt and contractor debt.

Note 3. Fund Balance with Treasury

As of September 30	2012	2011
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,122,629	$ 944,371
Total Fund Balances	$ 1,122,629	$ 944,371
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 0	$ 0
Fund Balance per	1,122,629	944,371
Reconciling Amount	$ (1,122,629)	$ (944,371)

The DLA General Fund (GF) shows a $1,122,631,113.23 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	2012	2011
(Amounts in thousands)		
Unobligated Balance		
Available	$ 250,472	$ 257,890
Unavailable	25,408	16,814
Obligated Balance not yet Disbursed	$ 884,451	$ 687,978
NonFBWT Budgetary Accounts	$ (37,702)	$ (18,311)
Total	$ 1,122,629	$ 944,371

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

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

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

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

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

The DLA GF does not have a difference between the amounts reported on FBWT (Total Fund Balance – Line 1.F versus the Total Status of Fund Balance – Line 5).

Note 4. Investments and Related Interest

Note Applicable to DLA GF.

Note 5. Accounts Receivable

As of September 30	2012		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
ts in thousands)			
1. Intragovernmental Receivables	$ 29,182	N/A	$ 29,182
2. Nonfederal Receivables (From the Public)	$ (1)	$ 0	$ (1)
3. Total Accounts Receivable	$ 29,181	$ 0	$ 29,181

As of September 30	2011		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1. Intragovernmental Receivables	$ 9,634	N/A	$ 9,634
2. Nonfederal Receivables (From the Public)	$ 411	$ 0	$ 411
3. Total Accounts Receivable	$ 10,045	$ 0	$ 10,045

The accounts receivable represents 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	2012	2011
(Amounts in thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 0	$ 3
Total Intragovernmental Other Assets	$ 0	$ 3
Nonfederal Other Assets		
Advances and Prepayments	1,595	3,512
Total Nonfederal Other Assets	$ 1,595	$ 3,512
Total Other Assets	$ 1,595	$ 3,515

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.
See Note 15, for additional information.

Note 7. Cash and Other Monetary Assets

This was not applicable to DLA GF in FY 2012.

Note 8. Direct Loan and Loan Guarantees

Not applicable to DLA GF.

Note 9. Inventory and Related Property

This was not applicable to DLA GF in FY 2012.

Note 10. General PP&E, Net

As of September 30	2012				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	$ 653,351	N/A	$ 653,351
Total General PP&E			$ 653,351	$ 0	$ 653,351

As of September 30	2011				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress(Excludes Military Equipment)	N/A	N/A	$ 609,646	N/A	$ 609,646
Total General PP&E			$ 609,646	$ 0	$ 609,646

Legend for Valuation Methods:
N/A = Not Applicable

The DLA GF General Property, Plant and Equipment (General PP&E) consists of only Construction-in-Progress (CIP). The CIP is funded by the Military Construction and Family Housing appropriations. The CIP account is used to accumulate the costs of real property assets under construction until the construction is completed and the assets are available for use. These costs include direct labor, direct material and overhead, as well as engineering and design costs. When construction is completed and the constructed asset is available for use, the asset is transferred from the DLA GF CIP account to the appropriate Military Service's General PP&E account.

The DLA transfers resources to the U.S. Army Corps of Engineers, Naval Facilities Engineering Command, and the Air Force to manage and execute construction projects. These agencies maintain CIP accounts for each construction project they are managing and are responsible for facilitating the transfer of completed assets to the applicable real property account.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2012	2011
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 3,855	$ 6,522
Total Intragovernmental Liabilities	$ 3,855	$ 6,522
Nonfederal Liabilities		
Accounts Payable	$ 6,547	$ 6,409
Military Retirement and Other Federal Employment Benefits	5,441	5,645
Environmental Liabilities	185,813	166,050
Other Liabilities	3,724	3,610
Total Nonfederal Liabilities	$ 201,525	$ 181,714
Total Liabilities Not Covered by Budgetary Resources	$ 205,380	$ 188,236
Total Liabilities Covered by Budgetary Resources	$ 64,453	$ 44,299
Total Liabilities	$ 269,833	$ 232,535

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 $5.4 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	2012		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 4,002	$ N/A	$ 4,002
Nonfederal Payables (to the Public)	23,612	0	23,612
Total	$ 27,614	$ 0	$ 27,614

As of September 30	2011		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 4,045	$ N/A	$ 4,045
Nonfederal Payables (to the Public)	21,014	1	21,015
Total	$ 25,059	$ 1	$ 25,060

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

Not Applicable to DLA GF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2012	2011
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 195,043	$ 178,145
Environmental Corrective Action	381	0
Environmental Closure Requirements	2,340	1,785
Installation Restoration Program	29,688	9,668
Total Environmental Liabilities	$ 227,452	$ 189,598

The DLA Environmental Liabilities (EL) are derived from current and out-year RACER estimates generated for 72 Defense Environmental Restoration Program (DERP), 130 Non- Base Realignment and Closure (Non-BRAC) sites, and 1 BRAC site. In August 2011, DLA executed the RACER model to generate the FY 2012 CTC estimates of anticipated costs necessary to complete environmental restoration requirements.

Applicable Laws and Regulations for Cleanup Requirements

The DLA is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. The DLA is required to follow the CERCLA; RCRA; and SARA to clean up contamination on installations managed by DLA in coordination with regulatory agencies. This cleanup may at times extend beyond Installation boundaries onto privately owned property and to sites where DLA is named as a potentially responsible party by a regulatory agency.

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER model, an independently validated model, to estimate environmental costs. The RACER Steering Committee validates the model in accordance with DoD Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

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

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

The DLA had changes in estimates for FY 2012 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA’s EL are expected to fluctuate due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2012 CTC has incorporated the DoD inflation factors into the BRAC, DERP and Non-BRAC closure estimates. The latest version of RACER (Version 10.4) was used to rebaseline estimates.

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

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

DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible. Due to the lack of information in environmental remediation work, a parametric cost model (such as RACER) would be used as a preliminary of order of magnitude estimate. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

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

Note 15. Other Liabilities

As of September 30	2012		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 726	$ 0	$ 726
Employer Contribution and Payroll Taxes Payable	149	0	149
Other Liabilities	3,855	0	3,855
Total Intragovernmental Other Liabilities	$ 4,730	$ 0	$ 4,730
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 493	$ 0	$ 493
Accrued Unfunded Annual Leave	3,725	0	3,725
Contract Holdbacks	350	0	350
Employer Contribution and Payroll Taxes Payable	28	0	28
Total Nonfederal Other Liabilities	$ 4,596	$ 0	$ 4,596
Total Other Liabilities	$ 9,326	$ 0	$ 9,326

As of September 30	2011		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 627	$ 157	$ 784
Custodial Liabilities	0	301	301
Employer Contribution and Payroll Taxes Payable	141	0	141
Other Liabilities	6,254	0	6,254
Total Intragovernmental Other Liabilities	$ 7,022	$ 458	$ 7,480
(Amounts in thousands)			
Nonfederal			
Accrued Funded Payroll and Benefits	$ 697	$ 0	$ 697
Accrued Unfunded Annual Leave	3,610	0	3,610
Contract Holdbacks	445	0	445
Total Nonfederal Other Liabilities	$ 4,752	$ 0	$ 4,752
Total Other Liabilities	$ 11,774	$ 458	$ 12,232

Composition of Other Lines

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

Note 16. Commitments and Contingencies

DLA is not aware of any contingent liabilities for legal actions within GF for FY 2012.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2012		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 5,441	$ 0	$ 5,441
Total Other Benefits	$ 5,441	$ 0	$ 5,441
Total Military Retirement and Other Federal Employment Benefits:	$ 5,441	$ 0	$ 5,441

As of September 30	2011		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 5,645	$ 0	$ 5,645
Total Other Benefits	$ 5,645	$ 0	$ 5,645
Total Military Retirement and Other Federal Employment Benefits:	$ 5,645	$ 0	$ 5,645

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the DOL, 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 OMB economic assumptions for 10-year U.S. Treasury notes and bonds. 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 2012 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

3.535% in Year 1
4.025% 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) 2012 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
2012	N/A	N/A
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016+	2.00%	3.73% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2012 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 2012 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.

Remarks: The interest rate assumptions and COLAs and CPIMs projections are for 2011. The rate and projections will be updated after DOL publishes the CBY, COLA and CPIM's data for 2012.

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2012	2011
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 338,965	$ 312,674
Nonfederal Cost	158,249	106,445
Total Cost	$ 497,214	$ 419,119
Earned Revenue		
Intragovernmental Revenue	$ (42,015)	$ (30,050)
Nonfederal Revenue	0	111
Total Revenue	$ (42,015)	$ (29,939)
Total Net Cost	$ 455,199	$ 389,180
Procurement		
Gross Cost		
Intragovernmental Cost	$ 48	$ 20
Nonfederal Cost	12,001	3,699
Total Cost	$ 12,049	$ 3,719
Total Net Cost	$ 12,049	$ 3,719
Research, Development, Test & Evaluation		
Gross Cost		
Intragovernmental Cost	$ 27,505	$ 9,702
Nonfederal Cost	200,693	197,691
Total Cost	$ 228,198	$ 207,393
Earned Revenue		
Intragovernmental Revenue	$ (16,003)	$ (23,785)
Nonfederal Revenue	(111)	(60)
Total Revenue	$ (16,114)	$ (23,845)
Total Net Cost	$ 212,084	$ 183,548

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

Family Housing & Military Construction				
Gross Cost		**2012**		**2011**
Intragovernmental Cost	$	5,636	$	17,168
Nonfederal Cost		33,368		3,210
Total Cost	$	39,004	$	20,378
Earned Revenue				
Nonfederal Revenue		(34,680)		0
Total Revenue	$	(34,680)	$	0
Total Net Cost	$	4,324	$	20,378
Consolidated				
Gross Cost				
Intragovernmental Cost	$	372,154	$	339,564
Nonfederal Cost		404,311		311,045
Total Cost	$	776,465	$	650,609
Earned Revenue				
Intragovernmental Revenue	$	(58,018)	$	(53,835)
Nonfederal Revenue		(34,791)		51
Total Revenue	$	(92,809)	$	(53,784)
Total Net Cost	$	683,656	$	596,825

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 SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

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

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

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

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

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4^{th} Quarter, FY 2012.

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

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

No Disclosures Required for DLA GF in FY 2012.

Note 20. Disclosure Related to the Statement of Budgetary Resources

As of September 30	2012	2011
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 863,982	$ 671,579
Available Borrowing and Contract Authority at the End of the Period	0	0

Apportionment Categories for Obligations

The DLA had Apportionment Category A-Direct and Reimbursable Obligations Incurred and Category B-Direct Obligations Incurred. 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	659.8	396.7	1,056.5
Reimbursable Obligations Incurred	62.4	0.0	62.4
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	722.2	396.7	1,118.9

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30 (Amounts in thousands)	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 1,118,908	$ 884,643
Less: Spending authority from offsetting collections and recoveries (-)	(113,369)	(147,058)
Obligations net of offsetting collections and recoveries	$ 1,005,539	$ 737,585
Net obligations	$ 1,005,539	$ 737,585
Other Resources:		
Transfers in/out without reimbursement (+/-)	(124,528)	(20,737)
Imputed financing from costs absorbed by others	3,352	2,947
Net other resources used to finance activities	$ (121,176)	$ (17,790)
Total resources used to finance activities	$ 884,363	$ 719,795
Resources Used to Finance Items not Part of the Net Cost of Operations:		

As of September 30 (Amounts in thousands)	2012	2011
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	$ (192,403)	$ 51,819
Unfilled Customer Orders	(154)	3,890
Resources that fund expenses recognized in prior Periods (-)	(2,661)	(1,103)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	124,528	20,737
Total resources used to finance items not part of the Net Cost of Operations	$ (70,690)	$ 75,343
Total resources used to finance the Net Cost of Operations	$ 813,673	$ 795,138
Increase in annual leave liability	$ 114	$ 187
Increase in environmental and disposal liability	37,853	12,085
Other (+/-)	138	10
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 38,105	$ 12,282
Components not Requiring or Generating Resources:		
Revaluation of assets or liabilities (+/-)	4,513	2,238
Other (+/-)		
Other	(172,635)	(212,833)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ (168,122)	$ (210,595)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ (130,017)	$ (198,313)
Net Cost of Operations	$ (130,017)	$ (198,313)

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

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

DLA adjusted the note schedule in the amount of $110,811.45 to bring it into balance with the Statement of Net Cost, (SNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems, to Other Components Not Requiring of Generating Resources.

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

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

Composition of Other Lines

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

Components Not Requiring or Generating Resource: Other consists primarily of cost capitalization offsets within the MILCON appropriation for CIP.

Note 22. Disclosures Related to Incidental Custodial Collections

This is not applicable to DLA General Fund in FY 2012.

Note 23. Earmarked Funds

This is not applicable to DLA General Fund in FY 2012.

Note 24. Fiduciary Activities

This is not applicable to DLA General Fund in FY 2012.

Note 25. Other Disclosures

This is not applicable to DLA General Fund in FY 2012.

Note 26. Restatements

This is not applicable to DLA General Fund in FY 2012.

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