THE WARFIGHTERS LOGISTICS COMBAT SUPPORT AGENCY

ANNUAL FINANCIAL REPORT

DEFENSE LOGISTICS AGENCY

2013 Fiscal Year (unaudited)

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DEFENSE LOGISTICS AGENCY

DEFENSE WORKING CAPITAL FUND AND GENERAL FUND

FISCAL YEAR (FY) 2013 ANNUAL FINANCIAL REPORT

Table of Contents

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MESSAGE FROM THE DIRECTOR
OCTOBER 2013

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

In support of the Department's national defense strategy, in 2012, we introduced the "Big Ideas" initiative with focus on increasing effectiveness while decreasing costs. In 2013, the Focus has been to initiate execution of the "Big Ideas" with a focus on saving $13.1 billion over the next six years. The initiative includes five focus areas: decrease direct material costs, decrease operating costs, right size inventory, improve customer service and achieve audit readiness.

In addition to DLA 's worldwide mission, we are focused .on three specific area of operation: I) win the current fight and pivot to retrograde and transition in Afghanistan; 2) support Contingency and Humanitarian and Disaster Relief Support; and 3) enhance Industrial and Platform Support.

Finally, we will achieve full financial statement audit by September 30,2015, two years in advance of the Department's goals. In Fiscal Year 2013, we met milestones for civilian pay, general equipment, real property, and for three financial systems -- the Defense Automated Addressing System, the Defense Agency Initiative, and Wide Area Workflow.

DLA is steadfast in supporting our Service and interagency customers and executing that mission at best value for the nation. We see this as an opportunity to sustain our existing Warfighter support, while embracing change through innovative means that are cost effective, efficient and economical.

MARK HARNITCHEK
Vice Admiral, USN
Director

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DEFENSE LOGISTICS AGENCY

Consolidated Management's Discussion and Analysis
For the Fiscal Years Ended September 30, 2013 and 2012

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

Our fiscal year (FY) 2013 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 Big Ideas" to achieve significant savings. In 2013, our ideas became actions that laid the groundwork for FY 2014 savings. Our 2013 priorities to significantly improve performance while dramatically reducing cost are outlined in the FY 2013 Director's Guidance. Some key achievements to date for each of the Big Ideas are:

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

- ***Decrease Direct Material Costs: "Be Smart Buyers of the Right Stuff".*** Reduce material costs to achieve $9.7 billion in overall savings in five years. DLA's focus on identification and execution of major acquisitions to drive down direct materiel costs has resulted in more than $1.0 billion in savings across the supply chains. By leveraging initiatives across the Enterprise, DLA is ahead of FY 2014 targets for three to four major levers – Reverse Auctions, Procurement System & Process Improvements, and Value Management savings. DLA has made excellent progress in the fourth lever, Strategic Sourcing, already achieving 53.6% of the FY 2014 target savings.

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

DLA's Container Utilization efforts decreased costs for over-ocean (and over Northern Distribution Network) shipments through the use of well utilized 40-foot containers instead of under-utilized 20-footers. We saved taxpayer dollars by shipping fewer containers through the transportation pipeline. We have also increased Consolidation and Containerization Point (CCP) limitations from 10,000 lbs/800 cube to 25,000 lbs/1200 cube for non-subsistence internal DLA Distribution Prime Vendors. Vendors are now able to push more items to the CCPs and container utilization rates have improved. The transition to ANHAM occurred in October 2013. The Supreme contract ends in December 2013. The requirement for ANHAM to achieve 85% per container utilization went into effect in May 2013 for Afghanistan Subsistence Prime Vendor (SPV) contract. Our Vendor Non-compliance efforts decreased costs on the front-end of the distribution process as materiel that is improperly packaged and/or labeled is received from vendors

  - Overall efforts reduced the Supply Discrepancy Report average lead time to less than 90 days (excluding Counterfeit Materiel/Unauthorized Product Substitution).
  - Passive Radio Frequency Identification violations have decreased more than 50%.
  - Vendor misdirected shipments dropped by 60% while increasing visibility within the supply chains. Placed more emphasis on disposition of litigated assets, addressing packaging and labeling issues.

- ***Reduce Inventory: "Clean out the Attic and Keep it Clean".*** Right size both War Reserves and operational inventory. Our initiatives seek to optimize DLA inventory levels/locations while reducing operating costs and fulfilling our customer requirements. Through economic analyses, we determined that it was viable to dispose of many items with no demand, reduced the retention levels, and initiated efforts to stock the majority of our items at one depot location. These initiatives have allowed us to reduce inventory by $1.7 billion since March 2012 to $12.5 billion, with an attainable goal of $11.7 billion by the end of FY 2013. We will continue to review and make changes to our inventory posture as new warfighter requirements emerge.

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

  DLA has accelerated its Audit Readiness timeline for all financial statements to the end of FY 2015. Teams from all across the enterprise are fully engaged in documenting processes and identifying and testing hundreds of business process controls and systems controls for effectiveness. Where deficiencies have been found, Corrective Action Plans are developed and implemented, such as the Enterprise Business System (EBS) Data Cleansing effort that has cleared thousands of aged open documents and is putting processes and controls in place to actively monitor and resolve problem documents in the future. The Audit Readiness and Sustainment Awareness and Communication Strategy and Execution Plan were published as a roadmap for each DLA employee associated with the program. Awareness training was developed and delivered via the DLA Learning Management System and Audit Readiness articles and blogs are published regularly to help the workforce understand what audit readiness is all about. DLA's senior leaders are actively leading the effort – the Stewardship Committee meets every two weeks to review progress and address issues; and the DLA Director receives quarterly updates from the PLFA Commanders and J/D Code Enterprise Business Cycle Owners (the code's senior civilian leader) on their progress on achieving Audit Readiness within DLA. In June 2013, the DLA Director signed a Memorandum to the Office of the Under Secretary of Defense (Comptroller) OUSD(C) asserting that DLA's Hire-to-Retire civilian pay process was ready for audit. DLA asserted to General Equipment (Capitalized Assets) & Real Property for DLA Hosted Sites in September 2013.

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

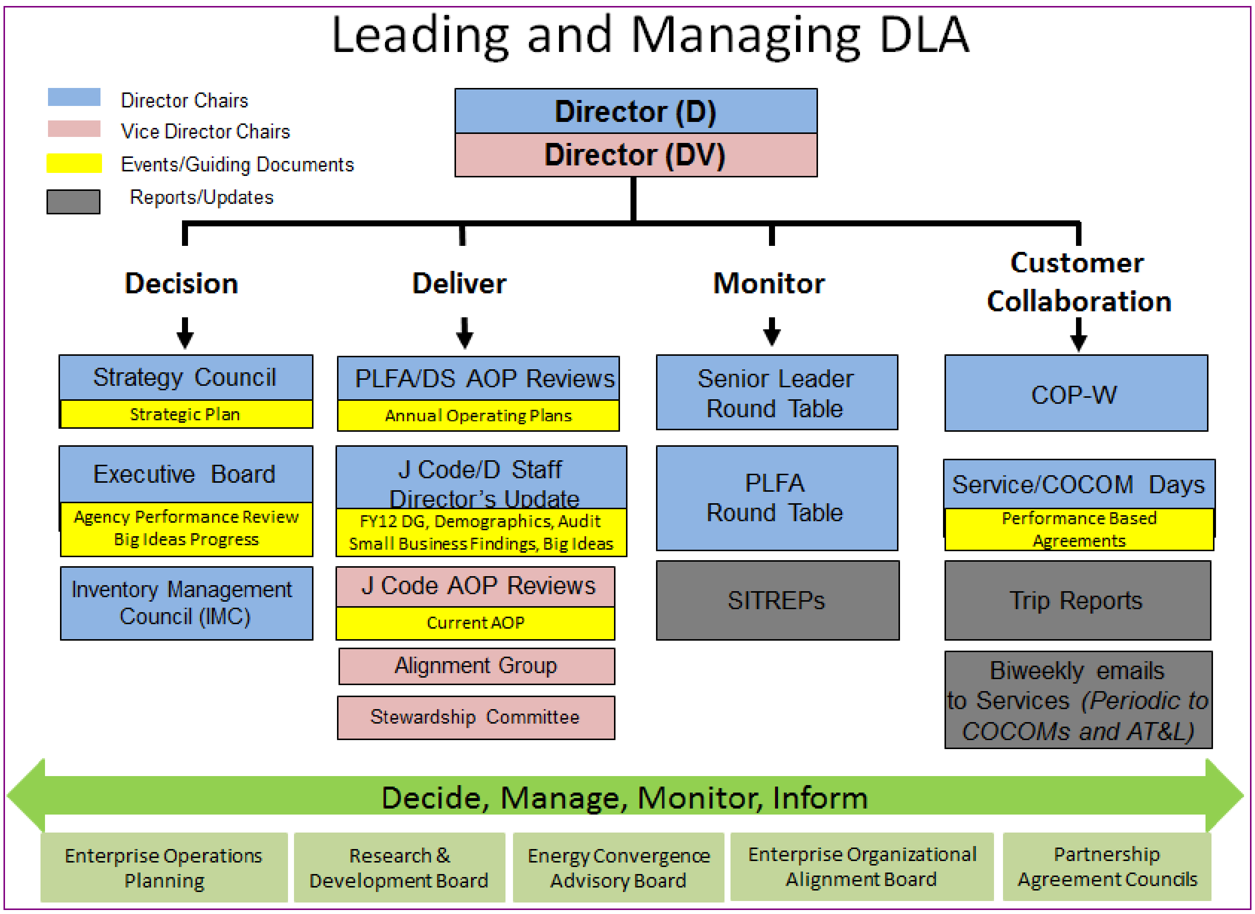
	FY14	FY15	FY16	FY17	FY18	FY19	TOTALS
OSD-C Guidance (DLA Supply Chain Only)							
Operating Cost ($ Millions)	$120	$145	$171	$199	$199	-	$834
Materiel Cost ($ Millions)	$416	$629	$850	$735	$745	-	$3,375
TOTAL	**$536**	**$774**	**$1,021**	**$934**	**$944**	**-**	**$4,209**
Additional Efficiencies (DLA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

"13-in-6"

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

STAYING THE COURSE

FY 2014 will clearly be another demanding year for DLA and all we serve. DLA must sustain our commitment of continuing to pursue initiatives that will contribute to improved warfighter support and greater fiscal responsibility. The primary forum for reporting quarterly progress is the Executive Board. Additionally, PLFA Reviews allow Commanders to go into greater detail regarding their initiatives. In summary, progress against these goals is 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, 561 active duty military personnel, and 757 reserve personnel. Overall, our personnel operate a $40.0 billion global enterprise in 28 countries, managing nearly 5 million items in 8 supply chains and supporting more than 1,700 weapon systems. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. These efforts will enable the implementation of an enterprise business model that develops, deploys, and executes an improved set of corporate business processes and strategies. By organizing as a single, integrated business enterprise, DLA will be in a position to focus more efficiently and effectively on supporting the DoD's supply chain, enhancing the Armed Forces' readiness, and providing for the warfighter during contingency operations. DLA is proactive in serving warfighter mission needs and constantly meets face-to-face with customers to determine requirements and how best to fulfill them.

Our organizational structure is described below:

DLA's core functions are directed or supported by:

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

DLA Human Resources provides the full range of human resources services, both policy and operational, for DLA's civilian and active duty military employees. Policy support is provided by headquarter (HQ) DLA at Fort Belvoir, 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 three field activities: the DLA Logistics Information Service, DLA Document Service, and DLA Transaction Services.

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

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

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

DLA Joint Reserve Force (JRF) supports DLA with trained, ready, and available reservists, of all reserve components, for contingency operations, peacetime contributory support, wartime surge support, and planning support. Further, the DLA JRF advises the DLA Director on the planning and application of Joint Reserve Forces support in accordance with 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 2013, DLA executed a total budget program of approximately $40.3 billion; finished the year with total assets valued at approximately $23.3 billion and liabilities of $4.1 billion from the Consolidated Balance Sheet; and incurred a net operating loss of almost $4.3 billion on program costs of approximately $45.1 billion and revenues of nearly $40.8 billion from the Consolidated Statement of Net Cost.

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

SUPPLY MANAGEMENT

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

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

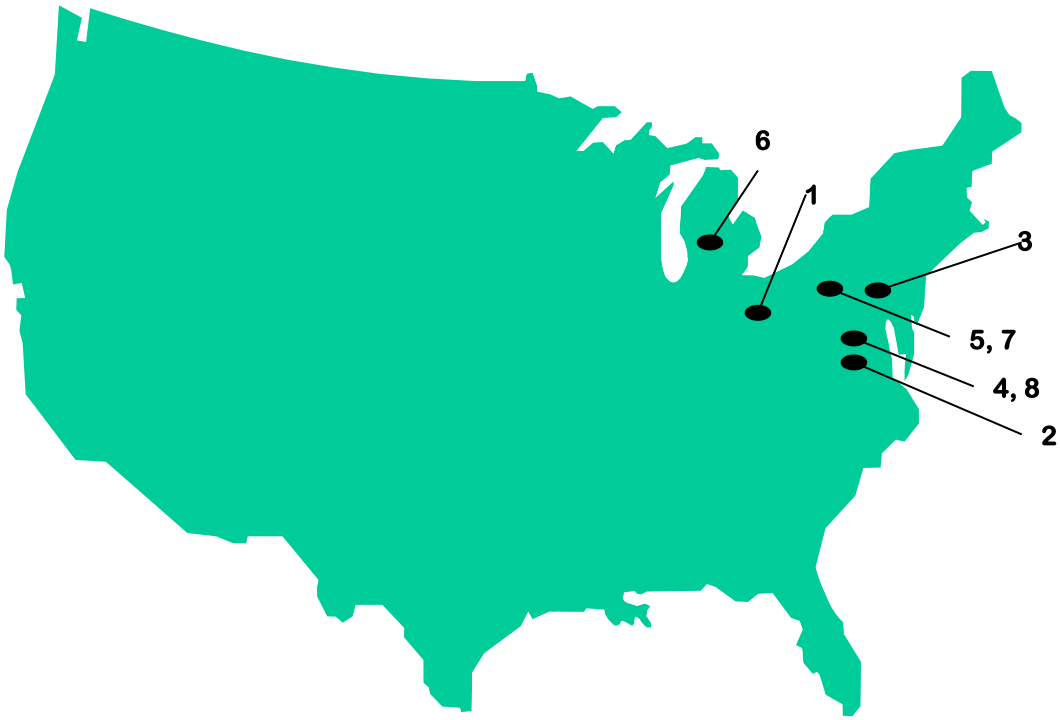
- Materiel Distribution (DLA Distribution): DLA Distribution provides a single, unified materiel distribution system for DoD. In addition to its primary mission of receiving, storing, and issuing materiel worldwide, distribution depots perform other functions that include - but are not limited to - providing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

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

DLA DOCUMENT SERVICES

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

DEFENSE LOGISTICS AGENCY ACTIVITY GROUP PRINCIPAL LOCATIONS



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

GENERAL FUND AND TRANSACTION FUND

The General Fund is appropriated by Congress, which also grants authority to the Office of the Secretary of Defense (OSD) and its components to obligate funds and pay for goods and services from their annual budgets. After funds are appropriated, 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 2013, 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; and Family Housing O&M.

The DLA O&M appropriation, of approximately $406.4 million, funded two distinct groups: Other Logistics Services (OLS), $272.9 million, and Other Logistics Programs (OLP), $133.5 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 $241.4 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 $291.3 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 $6.8 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 DLA General Fund finished FY 2013 with total assets valued at approximately $2.1 billion and liabilities of approximately $339.1 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 $323.0 million in its Transaction Fund for FY 2013. The DLA Strategic Materials operates under the authority of the Strategic and Critical Materials Stock Piling Act (50

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

The Defense Finance and Accounting Service (DFAS) prepared the FY 2013 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 assessable units identified in the May 2013 DoD Financial Improvement and Audit Readiness (FIAR) Plan Status Report and related financial systems. The May 2013 FIAR Plan Status Report provides information on DLA accomplishments and identifies the schedule for the DLA assessable units that are currently under evaluation.

The assessment was conducted in compliance with OMB Circular No. A-123, Appendix A, and the most recent version of the DoD FIAR Guidance, under the oversight of the DLA's Senior Assessment Team (SAT). The DLA SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, DLA provided a qualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2013, were operating effectively with the exception of 17 material weaknesses.

The DLA Information Operations conducted an internal review of the effectiveness of the DLA internal controls over financial systems. DLA provided qualified assurance that the DLA managed financial systems have achieved substantial compliance with the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-127. Testing has been completed or is in progress on the thirteen DLA and DoD Enterprise Business Systems, using the Federal Information Systems Controls Audit Manual (FISCAM) testing procedures. As of September 30, 2013, DLA has completed management assertions for the IT General Control environment for Defense Address Addressing System (DAAS), Defense Agency Initiative (DAI) and Wide Area Work Flow (WAWF).

The thirteen DLA and DOD Enterprise Business Systems and FFMIA/FISCAM dates:

System	FISCAM ITGC Report	FFMIA Report
DAAS / GEX	30-Apr	N/A
DMLSS - W	3-May	26-Jul
DOD EMALL	5-Apr	N/A
DSS	5-Apr	23-Aug
EAGLE	5-Mar	26-Jul
EBS	7-Jun	20-Dec
FMD	15-Nov	4-Oct
STORES	5-Apr	26-Jul
DAI	30-Apr	30-Sep
DTS	5-Apr	28-Jun
EDA	1-Mar	N/A
EFD	5-Apr	31-May
WAWF	5-Apr	30-Apr

**Green indicates completion*

The DLA established Financial Improvement Plans to address all identified weaknesses and provides monthly updates to OSD.

Based on its evaluation, DLA provided a qualified Statement of Assurance (SOA) that its financial reporting and system of internal controls, as of June 30, 2013, was operating effectively with the exception of the identified material weaknesses. DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner.

SYSTEMS

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

- **EProcurement** is the DLA effort to consolidate and standardize multiple legacy acquisition systems/tools used across the enterprise into a single system/tool with the same SAP platform as EBS, DLA's Enterprise Resource Planning (ERP) system. Since achieving the Full Deployment Decision (FDD) Milestone, EProcurement has successfully deployed to the Troop Support, DLA Contracting Services Office (DCSO), and Land & Maritime organizations. We are on track to reach FDD in February 2014.

    - 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, it transitions off of the legacy systems. The goal is to close-out of legacy systems by the end of FY 2014.

    - 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/April 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 started in October 2011 (DCSO-R; DLA Aviation; DCSO-C; Land & Maritime; Land & Maritime Detachment at Troop Support; DCSO-P; and Troop Support).

- **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.

  - IMSP successfully deployed to DLA Aviation – San Diego (FRC-SW) in June 2013. The remaining implementations for Naval Fleet Readiness Centers are Jacksonville (FRC-SE) and Cherry Point (FRC-E); they are scheduled to occur in FY 2014.

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

  Key Cost Savings:

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

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

  FDTPI completed its TRR in August 2013 and is on track to reach FDD/Milestone-C in October 2013.

- **Performance Based Logistics (PBL):** The PBL provides alternative logistics support solutions that transfer inventory management, technical support, and supply chain functions to a provider for a specified level of performance to optimize weapon system support to meet the needs of the warfighter. PBLs are about obtaining Performance, not transactional goods and services. PBLs facilitate overall life-cycle management of system reliability, supportability, and total ownership costs. The PBL project focuses on enterprise PBLs, PBLs between two or more Services. Three Models were assessed and Model #3 was the one chosen to be implemented.

  - Model #1: DLA Owned w/Asset Visibility
    - End Item travels between customer and contractor.
    - DLA receives transactions and tracks carcass/A coded items.
    - Logistics Reassignment from Services to DLA.

- Model #2: Depot Based
  - DLA receives transactions and tracks carcass/A coded items.
  - DLA takes physical custody of carcass/A coded items.
  - Logistics Reassignment from Services to DLA.

- Model #3: Service-Owned
  - Service continues to own the assets while in contractor custody.
  - DLA administers contract, has visibility of transactions, and monitors vendor performance.

In June 2013, PBL successfully reached the FDD Milestone and was transitioned over to Sustainment.

- **Credit Card Billing (CCB):** The CCB is a project that provides DLA with capabilities to move the billing process of Electronic Mall (EMALL) customer credit card orders from EMALL to EBS by interfacing with Pay.gov. This includes the unique requirements for federal (i.e., credit card charged at time the order is fulfilled) and non-federal (i.e., credit card charged in advance) order processing in EBS. The goal is to reduce the credit card billing reconciliation between EMALL and EBS and reduce overstated Accounts Receivables and Undistributed Collections balances. CCB successfully completed its Production Readiness Review in June 2013 and went live in August 2013.

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

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

  - Release 1 (November 2011): Aerospace and Natural Gas (acquisition and life-cycle commodity management support).
  - Release 2 (October 2012): Integrated Oil and Gas/EBS solution.

- Petroleum Rollout 1 (June 2013): Alaska (retail and transshipment inventory sites, customer-direct operations, associated service contracts and ancillary processes (e.g. transportation)).
- Petroleum Rollout 2 (September 2013): West Coast and Hawaii petroleum.
- Petroleum Rollout 3 (November 2013): Remainder of CONUS, Puerto Rico, South America, Cuba, and Canada.
- Release 3 (January 2014): Additional reporting capabilities, additional interfaces.
- Petroleum Rollout 4 (February 2014): Pacific, Card Programs, Into-Plane and Bunkers.
- Petroleum Rollout 5 (April 2014): Europe and Middle East.

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 PLFAs recognize the importance of audit readiness and performance metrics, and have taken the next logical steps to evaluate internal control 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 2012, DLA identified strategic focus areas to define our principal thrusts:

- Warfighter Support: Deliver agile and responsive logistics solutions to Warfighters,
- Stewardship Excellence: Manage DLA processes and resources to deliver effective Warfighter support at optimal cost, and
- Workforce Development: Foster a diverse workforce, supporting culture and related personnel practices to deliver sustained mission excellence.

In 2013, our focus became actions that lay the groundwork for fiscal savings. By focusing on excellence in our daily operations and driving additional transformational change, we are driving warfighters' success. DLA implemented OMB Circular A-123, Appendix A methodology to evaluate both financial and operational business processes and mitigate risk. The mapping, risk analysis, and testing provided opportunities for DLA to track the evaluation of its business processes to meet its goals and shared 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 Alignment Group and Stewardship Committee continue 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 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. DLA's approach to testing the system of internal controls began with the identification of which key controls in Enterprise business process areas to evaluate. Each Assessable Unit Manager utilized his or her assessable unit's Annual Operating Plan to determine which sub-assessable units would have the greatest impact on mission accomplishment and the associated risk in these focus areas.

DLA faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Once risks were identified, they were analyzed for their possible effect and an approach formulated for risk management and the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations. Control activities such as policy and procedures help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the agency's objectives. Control activities occur throughout the organization, at all levels and in all functions. A range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties are all considered in our business processes.

Audit Readiness has become a driver for identifying process, control or system deficiencies impeding success and developing plans to remediate these impediments. Through the identification of gaps in our processes, corrective actions, and implementation of improvements to our processes, we are better prepared to achieve an independent public accounting firms unqualified opinion on our financial statements and improve our performance metrics.

PROGRESSING TOWARD AUDIT READINESS

Prior to February 2012, parts of DLA were exclusively mission focused and did a great job supporting the warfighter; however, the end-to-end processes were not centrally managed nor focused on the elements necessary to pass and sustain an audit. With the establishment of the

Senior Executive Service (SES) led Audit Readiness Program Management Office in March 2012, this changed and, in comparison to prior years, DLA leadership, sponsorship, and commitment to audit readiness have improved significantly in fiscal year 2013.

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

DLA has established a rigorous enterprise Audit Readiness strategy, program infrastructure, and governance structure that is centrally managed and has full Agency support and clear accountabilities at the senior level. The governance includes an Audit Committee, Stewardship Committee, centralized Program Management Team (PMT), Stewardship Working Group (SWG), Business Cycle Teams (BCTs) – each led by a senior executive at DLA Headquarters known as an Enterprise Business Cycle Owner (EBCO), Technical Infrastructure & Architecture (TIA) Team, Field Command Teams (FCTs), and Enterprise Support Teams. DLA is executing all OUSD(C) FIAR phases concurrently to pass a full financial statement audit: Discovery, Corrective Action, Assertion/Evaluation, Validation, and Audit.

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

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

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

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

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

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

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

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

DLA continues to demonstrate defendable, incremental, audit cycle success measures through each assertion. As each business area drives to their respective assertions in FYs 2013-2015, DLA continues to build the necessary capabilities by applying lessons learned and directly leveraging audit expertise into every area of the strategy implementation on a daily basis. DLA is working to transfer essential knowledge and provide hands-on employee training to quickly remediate gaps in the organization's functions and procedures. DLA will continue to work through the multiple phases of audit, while tackling the most significant material risk areas in each part of the business under assertion. Significant audit achievements continue since the inception of the Audit Readiness Program in March 2012 beyond those listed below. However, these more visible successes continue to demonstrate DLA's measured progress:

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

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 $1.0 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 2013,

$2.5 million has been identified for recapture. Root causes for the $2.5 million in improper payments fell into the following categories: overpayments ($1.0 million or 42%), deductions not taken for lump sum decreases due to contract modification ($772.7 thousand or 31%), payments made for merchandise that had been returned to the contractor ($435.5 thousand or 18%), erroneous payments ($112.2 thousand or 5%), and duplicate payment of invoices ($100.0 thousand or 4%). As of September 30, 2013, 91 percent, or $2.2 million of the improper payments have been recovered. DLA continues to review its business processes to mitigate and resolve conditions giving rise to improper payments.

Reporting Categories	
Amount Subject to Review for Current Year Reporting*	$0
Actual Amount Reviewed and Reported - CY	$0
Overpayment Amounts Identified for Recovery - CY	$0
Amounts Recovered - CY	$965,587
Overpayment Amounts Identified for Recovery - Prior Years (PYs)	$2,454,768
Amounts Recovered PYs	$1,259,901
Cumulative Amounts Identified for Recovery (CY+PYs)	$2,454,768
Cumulative Amounts Recovered (CY+PYs)**	$2,225,488
Recovery Rate	90.7%

***** *The amount subject to review represents total payments processed in DLA's legacy system, the Standard Automated Materiel Management System (SAMMS), in FY 2005, FY 2006, and FY 2007; and payments related to DLA's non energy supply activities processed in DLA's ERP system, the Enterprise Business System (EBS), in FY 2007 through FY 2012. For FY 2013, recovery audit work was limited to completion of processing any outstanding overpayments, apparent claims, vendor request notices or administration directly associated with such open actions that are pending completion. Our contractor, Connolly, Inc., was not authorized to perform work in the identification of any new recovery audit efforts.*

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

OTHER ACCOMPANYING INFORMATION

DoD Executive Agent (EA):

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

The DLA has also been designated per Department of Defense Instruction (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 C&T integration roles and responsibilities:

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

Class I (Subsistence):

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

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

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

- As the expiration of the current SPV contract in Afghanistan approached, DLA resolicited and awarded the contract to a new vendor. The transition process began in earnest with first deliveries made in September 2013 following a phased roll-out plan. DLA also deployed a team to augment personnel already serving in Afghanistan and to work towards a successful transition.

- Supported regional economic growth through purchases in Afghanistan and the Central Asian States.

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

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

- Provided over 370,000 Halal meals in support of Syria.

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

- Supported national relief efforts to areas damaged by Hurricane Sandy. DLA provided MREs, Unitized Group Rations, bottled water and health & comfort packs to responders while providing FEMA with commercial MREs and commercial meals.

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

- Participated in an extensive capabilities study, that used the New Madrid fault line scenario, to test the limits of DLA's ability to provide subsistence support following a devastating natural disaster.

- Established a SPV platform in Panama is support of the Navy and Coast Guard.

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

- Managed all Services' War Reserve requirements at locations worldwide as agreed upon in Performance Based Agreements (PBAs). Renewed the governing War Reserve PBA with United States Air Force.
- Coordinated with the Department of the Army G4 on critical changes to the quantity and locations of Army War Reserve CL I material. This coordination culminated in a new Performance Based Agreement (PBA) and stock realignment in accordance with (IAW) the new Army requirements.

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

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

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

Class II (Clothing & Textiles):

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

- Drafted and coordinated an analysis of Class II's Capabilities to provide humanitarian response to FEMA's New Madrid Earthquake Scenario.

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

- Supported USCENTCOM by deploying a Warfighter Support Representative to Afghanistan for six months.

- Processed nearly $200 thousand in Military Interdepartmental Purchase Request transactions for Class II materiel/services on behalf of Combatant Commands and new DoD customers requiring special ordering capacities.

- Provided deployed and reachback support for Exercises Vibrant Response and Ardent Sentry 2013.

- Provided intensive deployed, reachback and standby support for Hurricane Sandy Disaster Relief.

- Revamped and coordinated our Clothing and Textiles COOP Plan to align with functions and key tasks in our monthly ESORT Report in DRRS.

Class III (B) (Bulk Petroleum):

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

- Evaluated in-transit visibility (ITV) feeds in the areas of responsibility (AOR) and attached that link to the BP-COP application. Currently working several additional Courses of Action (COAs) for use of bulk petroleum ITV feeds and their required system interface needs.

- Continued to improve the logistics of tactical equipment used in the storage and handling of bulk petroleum. Engaged both the Military Services and industry to better the manufacture, supply, and maintenance of fuel bladders. Working through the Collapsible Fuel Tank Working Group to address long standing logistics issues such as shelf life extension opportunities and relatively long term bladder storage of Motor Gasoline (MOGAS).

- Continued to comprehensively improve joint bulk petroleum training accessibility and visibility. Improved the Joint Petroleum Training Course, the Joint Petroleum Seminar and other courses to better prepare fuel logisticians for Combatant Command and contingency support duties.

- Developed a Bulk Petroleum Community of Practice for the Joint Lessons Learned Information System to document by service and type of mission those significant factors affecting the bulk petroleum community.

- Finalized an in depth review of the bulk petroleum logistics footprint in the AOR and identified ways to improve customer service, responsiveness, and accountability while potentially reducing loss and unnecessary fuel movements.

- As the DoD Executive Agent for Bulk Petroleum, completed a comprehensive review of the skill set and experience desired to become a joint petroleum officer, senior non-commissioned officer, or senior federal civilian. This information will be used by Services, COCOMs, and DLA Energy to evaluate and train individuals for critical positions.

- 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.

Class IV (Construction and Equipment):

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

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

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

- Deployed 1 of the 3 EA team members to USCENTCOM/ U.S. European Command (USEUCOM) (i.e. Kuwait) AOR.

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

- Completed the issuance of 7,613 containers of Class IV material, valued at approximately $150.0 million, which was prepositioned in the AOR to support surge capabilities and drastically reduce lead time for needed construction/barrier material.

- Expanded the Class IV sourcing options in the Central Asian States to maximize material availability and support the CENTCOM Commander's Policy Letter 40 initiative. Through this program, Construction and Equipment (C&E) purchased in excess of $40.0 million worth of construction material for its customers from the region.

- Deployed personnel to Uzbekistan to act as liaison between DLA's Prime Vendor partners and local sources for construction material.

- Assumed operational control of the Army Contracting Command - Rock Island transportation contract via a Delegation of Authority letter allowing C&E to arrange, track and manage all Class IV shipments from the Central Asian States (CAS) region.

- Developed an intricate/detailed In-Transit-Visibility (ITV) database to share with strategic customers, allowing them to receive "real-time" information on shipments of Class IV materials originating in the CAS region.

- Deployed personnel to Joint Base McGuire/Dix/Lakehurst in support of Hurricane Sandy relief and support efforts. Positioned over 50 generators at various staging areas for deployment to needed relief efforts.

- Participated in FEMA's New Madrid natural disaster (earthquake) scenario exercise.

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

- Constant review of Logistical Supportability Analysis matrices based off of COCOM Operation Plans. TSPs reviewed for process shortfalls that can trigger Class IV shortfalls.

- Continued development of a requirements forecasting and management planning concept to improve DLA Depot stockage levels. Participated in the continued development of the Integrated Consumable Items Support system focusing on Class IV requirements.

- Acquired and instituted a "train the trainer" program for the Container Management Module which tracks container movement/recovery to/from the AOR.

Class VIII (Medical Materiel):

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

  - Participated in the Korea Theater of Operations Planners' Working Meeting to assist PACOM and United States Forces, Korea in the development of logistics support plans - resulted in the development of a Joint CLASS VIIIA sustainment requirement for JOPES EMALL.

  - Participated in the Theater Lead Agent for Medical Materiel – Pacific (TLAMM-P) Operational Assessment in Okinawa, Japan – resulted in the development of a TLAMM-P support relationship matrix which displays the relationship between all theater units and TLAMM-P for direct or indirect logistics support.

  - Participated in the NORTHCOM Class VIII Enterprise Working Group – Purpose of the work group was to assemble key stakeholders in the Class VIII Defense Support to Civil Authorities response enterprise to develop a comprehensive Class VIII support plan that is effective within the National Incident Management System and address support issues across the spectrum of potential responders (State, National Guard, Federal, and DoD).

- Participated in the NORTHCOM Vibrant Response 13 exercise - a major field training exercise designed to facilitate timely coordination and response between local, state and federal agencies to disasters in the homeland to help the American people in time of need.

- DLA Troop Support Medical provided support to the Department of Health and Human Services for the Hurricane Sandy Relief Effort. The support included purchasing portable x-ray units, hypothermia prevention and management kits and 253 lines of medical/surgical expendable materiel totaling approximately $739.0 thousand.

- The Defense Medical Logistics Enterprise continues to invest in the Functional Executive Agent Medical Support Medical Contingency Requirements Workflow 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. During 2013, DLA led the software development activity through the full develop-test-field cycle with Release 1 going live to the customer in August. This is the first of 4 releases that will operationalize a new paradigm to develop materiel support requirements directly from scenario-based clinical demands and deliver a 7 to 1 return on investment through increased forecasting accuracy.

- The Medical Directorate continued to leverage the Warstopper Program to meet the surge and sustainment requirements of the Military Services. Through utilization of Warstopper funds, the Medical Directorate was able to gain access to $770.0 million of critical medical materiel with a $31.0 million investment, roughly 25 to 1 return on investment. This represents efficient and effective utilization of programmed funds.

- DLA Troop Support Medical, in coordination with Defense Health Agency and the Military Services, continues to aggressively execute the cost reduction plans outlined in OSD Cost Reduction Initiative. These actions include state of the art Information Management tools and Subject Matter Expert advice to assist in making informed clinical decisions on medical product selection to reduce delivered costs of both pharmaceuticals and medical/surgical items. Examples include redirecting manual requisitions to E-Commerce processes and purchasing less expensive generic products. Cumulative realized cost reductions to date (FY 2012 and first three quarters of FY 2013) have been $107.5 million.

- DLA hosted a "first ever" Surgeons General Roundtable with the three DoD Surgeons, ASD/Health Affairs, and commercial industry partners on December 10, 2012 analyzing the high level Strengths, Weaknesses, Opportunities and Threats (SWOT) of the $5.1 billion Class VIII Medical Supply Chain. Strategic discussion topics included formulating long term improvement actions to protect the U.S. Class VIII Commercial Industrial Base, and improve "Standardization" of medical supplies/equipment at both DoD peacetime institutional facilities and deployed wartime operational platforms. This highly successful Surgeons Roundtable further strengthens the critical partnership between DLA and the DoD Military Healthcare System (MHS); especially now as the MHS migrates to a new Defense Health Agency Governance Structure (as directed by U.S. Congress) to exert more corporate influence and compliance oversight over the MHS enterprise commencing October 1, 2013. DLA anticipates hosting a yearly Surgeons Roundtable the next several years as the DHA matures.

ADDITIONAL INITIATIVES AND ACCOMPLISHMENTS FOR FISCAL YEAR 2013

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

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

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

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

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.

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

Base Realignment and Closure (BRAC) 2005 Supply and Storage Implementation: The Office of the Secretary of Defense (OSD) designated DLA as the business manager responsible for implementing, in coordination with the Military Services, the three BRAC 2005 Supply and Storage recommendations:

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

- **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 expand across the DoD Supply Chain, a technology insertion effort was needed to enable the SAP Industry Solution

Public Sector and the SAP Industry Solution Oil and Gas to coexist in support of the DLA Energy mission requirements. The expanded DLA Enterprise Architecture will allow DLA to integrate energy commodity management with its other classes of supply, aligning and standardizing processes and systems support. It will also allow DLA Energy to leverage Enterprise initiatives such as EProcurement and Real Property. Energy Convergence source data capture at approximately 600 retail and transshipment operations locations worldwide will continue through the DLA Base-Level System Application (BLSA), which will promote sales, quality, and inventory transactional data into the DLA Enterprise. Energy Convergence integrates utilization of DOD's Wide-Area-Workflow application for vendor invoicing, inspection, and acceptance recordation for Energy commodities. Management of Energy Aerospace, Natural Gas, and petroleum inventory and operations in the Alaska, Hawaii, and CONUS West Coast geographical areas was migrated to the DLA Enterprise Architecture during FY 2012. Energy petroleum operations in all other geographic areas continue to be supported by Business Systems Modernization – Energy (BSM-E), but are slated to migrate to the DLA Enterprise Architecture in three increments phased in through March 2014.

- **Inventory Management and Stock Positioning (IMSP)**: IMSP supports the implementation of the BRAC Supply, Storage, and Distribution (SS&D) Management Reconfiguration recommendation. IMSP extends EBS and DSS process capabilities and system functionality necessary to support DLA's consumer-level (retail) SS&D responsibilities for industrial depot maintenance customers. IMSP system functionality has rolled out to users across DLA Aviation, DLA Land and Maritime, and DLA Distribution. Continued roll-outs will occur for additional DLA SS&D sites such as Jacksonville, FL and Cherry Point, North Carolina, NC.

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

- DSS supports 26 Distribution Centers, 125 Disposition Field Offices, 8 Material Processing Centers (MPC), 4 Container Consolidation Points (CCPs), 4 Theater Consolidation and Shipping Points (TCSPs), 1 Intermodal Hub, and 1 Air Force Nuclear Weapons Related Material (NWRM) site. DSS has over 12,000 users across the above sites and functions.
- Although DSS is a DLA system and primarily supports the DLS EBS, it is also a DOD-level system that stores material for other DoD Military Services' ICP/Supply Systems: D035K – Air Force's ICP Legacy System, Logistics Modernization Program (LMP) – Army's ICP ERP System, USAMMA – Army's Medical ICP ERP System, U2 – Navy's FISC System, UICP – Navy's ICP System, and the Mechanization Of Warehousing And Shipping Procedures (MOWASP) – Marine Corps ICP System.

- **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 EBS, 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.

- **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 EBS that will standardize the enterprise-wide management of real property assets.

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 Island, 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. In FY 2013, DLA processed $550.0 million of the Military Services' excess materiel through the Materiel Returns Program and through the receipt of unanticipated returns. These returns and those from previous years, result in offsetting future procurements by over $100.0 million per year, thus improving both the efficiency and effectiveness of supply chain management. The DLA Disposition Services reutilization mission primarily involves receiving materiel that is no longer needed by a component of the DoD and making it available to all of the components of the Department. In FY 2013, materiel with an estimated acquisition value of over $17.0 billion was turned into Disposition Services and $1.1 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 $101.5 million in FY 2013.

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

Enterprise Organizational Alignment (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).

Joint Reserve Force (JRF): Funded by the Military Services, J9 is composed of 743 reservists from the Army, Navy, Marines and Air Force. These reservists are utilized by DLA in a variety of capacities in support of peacetime operations, planning and exercises, contingencies, and wartime surges. Since September 11, 2001, 1045 JRF reservists have activated, serving a total of 1,340 tours of duty, in support of Operations Enduring Freedom, Iraqi Freedom, New Dawn, and Odyssey Dawn. During FY 2013, 209 reservists mobilized to support three DLA Support Teams (DSTs) in Kuwait and Afghanistan. Collectively, activated reservists logged more than 76,000 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 10,398 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 2013. In total, 197 DLA reservists from all four Military Services participated in the seventh annual Joint Reserve Training Readiness Event at Joint Base Langley-Eustis, Langley, VA, April 22-27, 2013. The objective of the exercise is to enhance Total Force readiness and simultaneously completing DLA and service-required training while also promoting teamwork. The event included weapons familiarization and qualification, a leadership reaction course, theatre-specific individual readiness training and physical fitness. More specific DLA-centered training is also completed, which included forklift training, a hazardous material course, demilitarization training and a Joint Operation Planning & Execution Systems course for more senior leaders. This training was highlighted in The Navy Reservist Magazine, the Navy Supply Corps Newsletter, DLA Today, DLA's Facebook page and both the Joint Reserve Force internal and external web pages.

To ensure training requirements match DLA needs and to keep DLA JRF leadership in unison, 60 reservists and civilian employees participated in the Combine Drill Weekend at DLA HQ, September 20-22, 2013. This workshop included briefings on DLA current operations, the Big Five Ideas, audit readiness, as well as a detailed discussion for planning of the DLA JRF annual training exercise. This forum ensures joint team leaders and senior enlisted throughout the JRF understand the current and future plans for manning, mobilization and training and readiness.

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER
NOVEMBER 2013

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 FYI7 timeframe and we are on track to meet this goal. To meet this accelerated timeframe, the Agency is concentrating on the following challenges:

Understanding the Processes and Controls - DLA is a complex, global organization and continues to gain a complete understanding of activity level actions through Process Cycle Memorandums (PCMs) and Test of Design (TOD) and Test of Effectiveness (TOE) on key controls. A continuous internal review of the effectiveness of the DLA internal controls is conducted to validate that processes are being performed as documented and that key controls are in place and effectively operating.

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.

Inventory - DLA holds 18.9 billion in resale inventory at sites operated by DLA, the Military Services, and contractors. The timing of moving Energy into the enterprise financial system solution presents a challenge to asserting all inventory E&C in FYI4. Other challenges are reconciling accountable inventory to the financial records and the documentation supporting the moving average cost valuation.

System - The biggest obstacle moving forward is how to extract the 700 million EBS transactions annually in a timely manner that supports the audit and allows DLA to reach our goals.

Real Property - The DLA footprint consists of a predominantly tenant presence within the Military Services environment. DLA occupies property worldwide with an approximate Property Replacement Value (PRV) of$50 billion. Challenges to acquiring and validating property assets records and evidential matter are being addressed through DLA site visits and utilizing a contracted effort with the U.S. Army Corp of Engineers (USACE).

In the past year, DLA asserted to the Audit Readiness of Hosted / Permitted-site Real Property, General Equipment (Capital), and Civilian Pay and Benefits assessable units; and the Defense Automatic Addressing System, Defense Agencies Initiative, and Wide Area Workflow systems. In FYl4 DLA will assert to Internal Use Software, Real Property (Non-hosted/Non-permitted sites), General Fund Statement of Budgetary Activities, General Fund / Fund Balance with Treasury, Inventory Existence & Completeness, Environmental Liabilities Management, and General Equipment (all).

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

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Defense Logistics Agency
Working Capital Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2013 and 2012

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2013 and 2012
(In Thousands)

		2013		2012
ASSETS (Note 2)				
Intragovernmental:				
Accounts Receivable (Note 5)	$	1,408,187	$	1,559,769
Other Assets (Note 6)		124,925		124,925
Total Intragovernmental Assets		1,533,112		1,684,694
Cash and Other Monetary Assets (Note 7)		-		5,377
Accounts Receivable, Net (Note 5)		900,132		1,202,686
Inventory and Related Property, Net (Note 9)		18,905,114		21,357,285
General Property, Plant and Equipment, Net (Note 10)		1,961,646		1,628,644
Other Assets (Note 6)		39,200		31,661
TOTAL ASSETS	$	23,339,204	$	25,910,347
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	106,863	$	134,349
Other Liabilities (Note 15 & 16)		445,574		677,154
Total Intragovernmental Liabilities		552,437		811,503
Accounts Payable (Note 12)		2,528,481		2,474,880
Military Retirement and Other Federal Employment Benefits (Note 17)		257,941		245,787
Environmental and Disposal Liabilities (Note 14)		570,140		195,003
Other Liabilities (Note 15 and Note 16)		220,338		216,099
TOTAL LIABILITIES	$	4,129,337	$	3,943,272
NET POSITION				
Cumulative Results of Operations - Other Funds	$	19,209,867	$	21,967,075
TOTAL NET POSITION		19,209,867		21,967,075
TOTAL LIABILITIES AND NET POSITION	$	23,339,204	$	25,910,347

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, 2013 and 2012
(In Thousands)

		2013		2012
PROGRAM COSTS				
Gross Costs	$	45,101,067	$	51,972,448
(Less: Earned Revenue)		(40,810,090)		(50,325,253)
Net Program Costs Including Assumption Changes		4,290,977		1,647,195
NET COST OF OPERATIONS	$	4,290,977	$	1,647,195

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, 2013 and 2012
(In Thousands)

	2013	2012
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,967,075	$ 21,034,737
Beginning balances, as adjusted	21,967,075	21,034,737
Budgetary Financing Sources:		
Appropriations used	230,135	1,400,627
Nonexchange revenue	(862)	(254)
Transfers-in/out without reimbursement	1,240,040	(1,023)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(106,712)	1,000,178
Imputed financing from costs absorbed by others	171,168	180,006
Other (+/-)	-	(1)
Total Financing Sources	1,533,769	2,579,533
Net Cost of Operations (+/-)	4,290,977	1,647,195
Net Change	(2,757,208)	932,338
Cumulative Results of Operations	$ 19,209,867	$ 21,967,075
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	-	400,627
Appropriations transferred-in/out	230,135	1,000,000
Appropriations used	(230,135)	(1,400,627)
Net Position	$ 19,209,867	$ 21,967,075

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, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 116,430	$ 127,423
Unobligated balance brought forward, October 1, as adjusted,	116,430	127,423
Recoveries of prior year unpaid obligations	2,841,739	1,733,328
Other changes in unobligated balance (+ or -)	(1,421,863)	(712,918)
Unobligated balance from prior year budget authority, net	1,536,306	1,147,833
Appropriations (discretionary and mandatory)	230,135	-
Contract Authority (discretionary and mandatory)	39,823,942	51,636,510
Spending Authority from offsetting collections (discretionary and mandatory)	(1,152,724)	(730,989)
Total Budgetary Resources	$ 40,437,659	$ 52,053,354
Status of Budgetary Resources:		
Obligations Incurred	$ 40,321,504	$ 51,936,924
Unobligated balance, end of year		
Apportioned	116,155	116,430
Total unobligated balance, end of year	116,155	116,430
Total Budgetary Resources	$ 40,437,659	$ 52,053,354

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 2012 data restated in the FY 2013 format.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 24,756,566	$ 21,034,553
Obligations incurred	40,321,504	51,936,924
Outlays (gross) (-)	(39,823,217)	(46,481,584)
Actual transfers, unpaid obligations (net) (+ or -)	-	1
Recoveries of prior year unpaid obligations (-)	(2,841,739)	(1,733,328)
Unpaid obligations, end of year	22,413,114	24,756,566
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(9,802,004)	(8,151,532)
Change in uncollected pymts, Fed sources (+ or -)	(428,322)	(1,650,472)
Uncollected pymts, Fed sources, end of year (-)	(10,230,326)	(9,802,004)
Obligated balance, start of year (+ or -)	14,954,562	12,883,021
Obligated balance, end of year (+ or -)	$ 12,182,788	$ 14,954,562
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	38,901,353	50,905,521
Actual offsetting collections (discretionary and mandatory) (-)	(38,722,910)	(44,500,996)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(428,322)	(1,650,472)
Budget Authority, net (discretionary and mandatory)	$ (249,879)	$ 4,754,053
Outlays, gross (discretionary and mandatory)	39,823,217	46,481,584
Actual offsetting collections (discretionary and mandatory) (-)	(38,722,910)	(44,500,996)
Outlays, net (discretionary and mandatory)	1,100,307	1,980,588
Agency Outlays, net (discretionary and mandatory)	$ 1,100,307	$ 1,980,588

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 2012 data restated in the FY 2013 format.

Defense Logistics Agency
Working Capital Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2013 and 2012

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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 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.

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

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

Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, DLA's FBWT is adjusted to agree with the U.S. Treasury accounts.

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

J. Cash and Other Monetary Assets

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

K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon the Analysis of Receivables by Age Group Method, with the exception for the Energy business area. Energy uses the General Reserve Method based on bad debt experience and changes in the 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 62% of its resale inventory using the moving average cost method. An additional 38% (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 Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The DLA recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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

Other liabilities also arise as a result of anticipated disposal costs for DLA's assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," 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 DLA Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable that were previously made. As a result, misstatements of reported Accounts Payable and Receivable are likely present in 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	2013	2012
(Amounts in thousands)		
Nonfederal Assets		
Cash and Other Monetary Assets	$ 0	$ 5,377
Accounts Receivable	407,053	637,942
Total Nonfederal Assets	$ 407,053	$ 643,319
Total Nonentity Assets	$ 407,053	$ 643,319
Total Entity Assets	$ 22,932,151	$ 25,267,028
Total Assets	$ 23,339,204	$ 25,910,347

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

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

Cash and Other Monetary Assets consist of interest, penalties, fines and administrative fees due from a vendor pending a final decision by the Armed Services Board of Contract Appeals.

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 2013 is $369.9 million.

Status of Fund Balance with Treasury

As of September 30		2013		2012
(Amounts in thousands)				
Unobligated Balance				
Available	$	116,155	$	116,430
Obligated Balance not yet Disbursed	$	22,413,114	$	24,756,566
NonFBWT Budgetary Accounts	$	(19,815,735)	$	(22,529,331)
Total	$	2,713,534	$	2,343,665

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 $2.7 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	2013		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,408,186	N/A	$ 1,408,186
Nonfederal Receivables (From the Public)	$ 1,045,621	$ (145,489)	$ 900,132
Total Accounts Receivable	$ 2,453,807	$ (145,489)	$ 2,308,318

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

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

Note 6. Other Assets

As of September 30		2013		2012
(Amounts in thousands)				
Intragovernmental Other Assets				
Other Assets	$	124,925	$	124,925
Total Intragovernmental Other Assets	$	124,925	$	125,925
Nonfederal Other Assets				
Outstanding Contract Financing Payments	$	39,153	$	31,614
Advances and Prepayments		48		47
Total Nonfederal Other Assets	$	39,201	$	31,661
Total Other Assets	$	164,126	$	156,586

Composition of Other Lines

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

Contract Financing Payments

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

The Contract Financing Payment balance of $33.7 million is comprised of $27.9 million in contract financing payments and an additional $5.8 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	2013	2012
(Amounts in thousands)		
Cash	$ 0	$ 5,377
Total Cash, Foreign Currency, & Other Monetary Assets	$ 0	$ 5,377

In FY 2013, the entire Cash balance was reversed to avoid duplicate entries on DLA’s and Agency-wide DoD financial statements for the pending collection of an Armed Services Board of Contracts Appeals case.

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA WCF.

Note 9. Inventory and Related Property

As of September 30	2013	2012
(Amounts in thousands)		
Inventory, Net	$ 18,905,113	$ 21,357,285
Total	$ 18,905,113	$ 21,357,285

Restrictions

The DLA Supply Chain Management (SCM) Inventory, Net total has restrictions of $68.9 million related to inventory in litigation. Inventory in litigation (condition code L) is materiel held pending litigation or negotiation with contractors or common carriers, and remains in condition code L until negotiated or settled.

General Composition of Inventory

The DLA inventory is comprised of SCM and Energy Management. The SCM inventory is reported in EBS. Energy Management is reported in BSM-E.

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

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

As of 4th Quarter, FY 2013, DLA reported $11.6 billion inventory using Moving Average Cost and $7.3 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 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 Energy Management then works with the Combatant Commanders to position those stocks where space permits and within the funded volumes. The current collaborates wartime stockage objective is 34.5 million barrels (mbbls). Peacetime bulk petroleum inventory requirements are calculated by Energy Management in accordance with guidelines provided by Office of the Under Secretary of Defense (Comptroller), and are positioned by Energy Management prior to placing war reserve inventories. The peacetime objective is 21.89 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)	2013			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Inventory Categories				
Available and Purchased for Resale	$ 18,815,256	$ 0	$ 18,812,526	MAC,FIFO,
Held for Repair	154,312	(61,725)	92,587	MAC
Excess, Obsolete, Unserviceable	6,062,722	(6,062,722)	0	NRV
Total	$ 25,029,560	$ (6,124,447)	$ 18,905,113	

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

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

Note 10. General PP&E, Net

As of September 30	2013				
	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	$ 2,118,979	$ (1,582,183)	$ 536,796
Leasehold Improvements	S/L	lease term	0	0	0
Software	S/L	2-5 Or 10	1,965,162	(1,187,050)	778,112
General Equipment	S/L	5 or 10	509,310	(351,925)	157,385
Assets Under Capital Lease	S/L	lease term	358	(346)	12
Construction-in-Progress (Excludes Military Equipment)	N/A	N/A	488,041	N/A	488,041
Other			1,823	(522)	1,301
Total General PP&E			$ 5,083,673	$ (3,122,026)	$ 1,961,647

Note 10. General PP&E Net (continued)

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
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

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, 2013

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	$ 199,516.50	$ 13,301.50
Net Bellwood Club				$ 695,018.00	$ 681,716.50	$ 13,301.50
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	$ 681,716.50	$ 92,347.50

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	2013	2012
(Amounts in thousands)		
Entity as Lessee, Assets Under Capital Lease		
Equipment	$ 358	$ 358
Accumulated Amortization	(346)	(275)
Total Capital Leases	$ 12	$ 83

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2013	2012
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 23,677	$ 24,349
Total Intragovernmental Liabilities	23,677	24,349
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	257,941	245,787
Environmental Liabilities	507,386	145,611
Other Liabilities	2,300	2,100
Total Nonfederal Liabilities	$ 767,627	$ 393,498
Total Liabilities Not Covered by Budgetary Resources	$ 791,304	$ 417,847
Total Liabilities Covered by Budgetary Resources	$ 3,338,033	$ 3,525,425
Total Liabilities	$ 4,129,337	$ 3,943,272

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

Composition of Other Lines

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

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

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

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 $257.9 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	2013		
(Amounts in thousands)	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 106,862	$ N/A	$ 106,862
Nonfederal Payables (to the Public)	2,528,482	0	2,528,482
Total	$ 2,635,344	$ 0	$ 2,635,344

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

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.

Note 13. Debt

Not Applicable to DLA WCF.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30 (Amounts in thousands)	2013	2012
Environmental Liabilities--Nonfederal		
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	$ 570,140	$ 195,003
2. Total Environmental Liabilities	$ 570,140	$ 195,003

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 3,050 sites; 2,957 sites associated with closure costs, and 93 sites are corrective action costs. In August 2013, DLA executed the RACER model and generated the FY 2014 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

The DLA has developed a plan for collecting and reporting EL for Non-Base Realignment and Closure (Non-BRAC) contamination at DLA managed Installations including Government-Owned Contractor-Operated fuel points and for service-owned and operated fuel terminals where

DLA stores fuel. To obtain the Service-owned fuel terminals data, DLA developed an environmental template that will be provided to the military services after the 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 2014 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 2014 CTC has incorporated the DoD inflation factors into the Non-BRAC closure estimates. The latest version of RACER (version 11) was used to rebaseline estimates.

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

The EL 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. There are 533 sites associated with closure costs at Overseas Bases. However, the DLA is unable to provide any reasonable estimates for potential corrective action sites at this time because the extent of required restoration is unknown.

Note 15. Other Liabilities

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

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
Total Nonfederal Other Liabilities	$ 210,439	$ 5,660	$ 216,099
Total Other Liabilities	$ 881,555	$ 11,698	$ 893,253

Capital Lease Liability

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

As of September 30 (Amounts in thousands)	2012 Asset Category: 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

Contingent liabilities includes $8.2 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. DLA has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

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

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

The DLA has a reasonably possible minimum loss contingency of $18.3 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 $18.3 million and a maximum liability of approximately $97.9 million. Both the minimum and the maximum levels decreased in FY 2013 due to DLA Energy Armed Services Board of Contract Appeals (ASBCA) case which dropped off this quarter.

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

Environmental Contingencies

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

Potential Loss Related to Economic Price Clause Contracts

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

Note 17. Military Retirement and Other Federal Employment Benefits

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

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

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the 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 2013 is the Federal Employees Compensation Act (FECA).

Actuarial Cost Method and Assumptions

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

2.293% in Year 1
3.138% 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) 2013 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
2013	2.83%	3.65%
2014	2.03%	3.66%
2015	1.93%	3.72%
2016	2.00%	3.73%
2017+	2.03%	3.80% 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 2013 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three years.

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

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

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

Remarks: The interest rate assumptions and COLAs and CPIMs projections are for 2012. The rate and projections will be updated after DOL publishes the CBY, COLA and CPIM's data for 2013.

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

Intragovernmental Costs and Exchange Revenue		
As of September 30	2013	2012
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 1,864,209	$ 1,933,642
Nonfederal Cost	43,236,858	50,038,806
Total Cost	$ 45,101,067	$ 51,972,448
Earned Revenue		
Intragovernmental Revenue	$ (36,324,293)	$ (41,814,126)
Nonfederal Revenue	(4,485,797)	(8,511,127)
Total Revenue	$ (40,810,090)	$ (50,325,253)
Total Net Cost	$ 4,290,977	$ (1,647,195)
Consolidated		
Gross Cost		
Intragovernmental Cost	$ 1,864,209	$ 1,933,642
Nonfederal Cost	43,236,858	50,038,806
Total Cost	$ 45,101,067	$ 51,972,448
Earned Revenue		
Intragovernmental Revenue	$ (36,324,293)	$ (41,814,126)
Nonfederal Revenue	(4,485,797)	(8,511,127)
Total Revenue	$ (40,810,090)	$ (50,325,253)
Total Net Cost	$ 4,290,977	$ (1,647,195)

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 3rd Quarter, FY 2013.

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

Effective with FY 2013 reporting, the Department has elected an alternative presentation for the Statement of Changes in Net Position (SCNP) as provided for in SFFAS No. 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds. Prior to the implementation of SFFAS 43, the SCNP contained separate columns for reporting of funds from dedicated collections. Beginning in FY 2013, the SCNP will provide a reference to the "Funds from Dedicated Collections" footnote and will no longer include separate columns on the face of the statement.

Appropriations Received on the SCNP does not agree with Appropriations on the Statement of Budgetary Resources (SBR). The difference of $230.1 million is due to additional resources included in the Appropriation line item on the SBR. Refer to Note 20, Disclosures Related to the SBR for further information.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2013	2012
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 19,531,150	$ 21,932,659
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	0.2B	0.2B
Reimbursable Obligations Incurred	0.0	40.1B	40.1B
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	0.0	40.3B	40.3B

The SBR includes intra-entity transactions because the statements are presented as combined.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2013	2012
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 40,321,504	$ 51,936,924
Less: Spending authority from offsetting collections and recoveries (-)	(41,992,973)	(47,884,795)
Obligations net of offsetting collections and recoveries	$ (1,671,469)	$ 4,052,129
Net obligations	$ (1,671,469)	$ 4,052,129
Other Resources:		
Transfers in/out without reimbursement (+/-)	(106,712)	1,000,178
Imputed financing from costs absorbed by others	171,168	180,006
Other (+/-)	0	(1)
Net other resources used to finance activities	$ 64,456	$ 1,180,183
Total resources used to finance activities	$ (1,607,013)	$ 5,232,312
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 (-)	$ 2,401,510	$ (5,359,127)
Unfilled Customer Orders	550,932	1,891,370
Resources that fund expenses recognized in prior Periods (-)	(1,784)	(309)
Resources that finance the acquisition of assets (-)	(33,468,062)	(37,855,866)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other (+/-)	106,712	(1,000,178)
Total resources used to finance items not part of the Net Cost of Operations	$ (30,410,692)	$ (42,324,110)
Total resources used to finance the Net Cost of Operations	$ (32,017,705)	$ (37,091,798)

As of September 30		2013		2012
(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		375,137		108,677
Increase in exchange revenue receivable from the public (-)		66,360		83,157
Other (+/-)		12,354		19,091
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	453,851	$	210,925
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	192,075	$	218,221
Revaluation of assets or liabilities (+/-)		2,985,368		783,252
Other (+/-)				
Cost of Goods Sold		33,184,561		37,730,301
Other		(507,173)		(203,706)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	35,854,831	$	38,528,068
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	36,308,682	$	38,738,993
Net Cost of Operations	$	36,308,682	$	38,738,993

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 ($102,833.13) to bring it into balance with the Statement of Net Cost. The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems and is included in Other Components Not Requiring or Generating Resources.

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

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

Composition of Other Lines

Resources Used to Finance Items Not Part of Net Cost of Operations: Other consists of transfers in and out without reimbursement between DLA Supply Chain Management.

Components Requiring or Generating Resources in Future Period: Other consists Contingent Legal Liability for future funded expenses.

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. Funds from Dedicated Collections

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, 2013 and 2012

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Heritage Assets

For Fiscal Year Ended September 30, 2013

HERITAGE ASSETS For Fiscal Year Ended September 30, 2013					
Heritage Asset Categories	Measurement Quantity	As of 10/01/12	Additions	Deletions	As of 9/30/13
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 2013 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, 2013

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 2013, 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 208 military reserve personnel that supported this business area. The Supply Management Activity Group generated revenue which totaled about $40.6 billion during FY 2013. This was a decrease of almost $9.8 billion from the previous year.

MISSION

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

The primary logistics functions include:

- Supply-chain integration and inventory management;

- Transportation management (shared with DLA Distribution Activity Group);

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

STRATEGIC GOALS

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

- **Strategic Sourcing (SS):** SS focuses on stratifying and satisfying customer driven high demand and readiness hardware items through long-term contracting coverage and process improvements. Almost 177,763 of the 3.8 million hardware items managed by DLA are through long-term agreements. Long term contract items made up 76.3% of DLA spend in FY 2013.
- **Warstopper Program:** This program recognizes that peacetime demand for certain items is inadequate to sustain an industrial base sufficient for readiness and mobilization. Consequently, extra preparedness measures are required for those items, and that critical industrial capabilities must be preserved to support the Department's readiness and sustainment requirements. In most cases, the Warstopper Program preserves essential production capability by investing in industry responsiveness to a projected surge

requirement without purchasing, storing, and managing a finished goods inventory. This concept applies to items such as chemical protective suits, nerve agent antidote auto-injectors, meals-ready-to-eat, and tray pack assemblies. The most recent return on investment (ROI) analysis for the program indicates that from 1993 through 2012 the Warstopper program has offset nearly $5.5 billion in War Reserve Materiel inventory purchases - a return on investment of more than 6:1. DLA expects a similar ROI on the $52.6 million Warstopper Program investment made in FY 2013.

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

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

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

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

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

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

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

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

PROGRAM PERFORMANCE INDICATORS

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

- **Material Availability (MA)** is used to identify performance issues within the logistics pipeline. As such, MA is DLA's overarching metric. MA is used to identify the capability of DLA to immediately issue materiel, both stocked and vendor-supplied, in response to customer requisitions. MA has a direct impact on DLA's operational performance and metrics such as total and aged backorders, timeliness and inventory efficiency. MA is reported as a percent of orders that are immediately issued out of the total number of orders received in the given time period of interest. DLA's overall MA at the close of FY 2013 was 96.6%. The hardware portion of DLA's business performed at 89.2%, which is below the Director's established goal of 91.0%. The cause of failure of MA is in the DLA stocked items (AAC D) category. The Primary Level Field Activities (PLFAs) have action plans in place for improving their supply chain MA throughout the course of FY 2014 which includes agile procurement and maintaining accurate stockage levels while balancing costs. The FY 2014 goals remain unchanged from FY 2013 levels.

- **Total and Aged Backorders (BOs)** reflect gaps in DLA's ability to fill or satisfy customer order requirements in a timely manner and are used to measure the number of orders received that have not been fulfilled by DLA the particular date of interest. Total BOs are customer orders which are in a backorder status for material that DLA can act upon to expedite the fill. There is filtering logic in place that excludes select open orders that automatically go into UFO status as part of the process of filling the order. Both a total number of all BOs and a number of BOs that are currently over 180 days old (referred to as "aged BOs") are measured. Because backorders create a failure for MA, the two metrics are typically correlated—a high level of backorders generally corresponds to a lower MA. DLA FY 2013 backorders measured 354,712 across the Agency, with 98,935 in the aged category. For hardware, backorders were at 277,680 against a Director established goal of 266,662. The aged category for hardware measured at 80,149 against a Director established goal of 39,999. The largest volume of backorders is for DLA stocked items (AAC D). As with MA, the PLFAs have action plans in place to reduce their backorder levels over the course of FY 2014 with revised goals of 208,261 for hardware, with no more than 41,652 in the aged category, along with zero backorders older than 3 years (a new goal not present in FY2013).

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

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

- **Procurement Productivity** measures the Supply Chains response to Purchase Requests (PRs) by awarding either contracts or Purchase Orders and maintaining an acceptable level of backlog, PRs in process. This process includes manual awards, automated awards, placing delivery orders on existing Long Term Contracts and cancellations, as measured against the number of PRs in process. During FY 2013, the Supply Chains reduced PRs in process from 120,424 at the end of October 2012 to 116,531 by the end of September 2013.

- **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 2013 fluctuated between 50.8 and 53.4 days compared to the actual ALT fluctuation of between 55 and 56 days in FY 2012.

- **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 2013 fluctuated between 61.6 and 65.2 days compared to the actual PLT fluctuation of between 66 and 85 days in FY 2012.

- **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 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. The DLA goal for FY 2013 was to renew 108,441 NSNs identified on expiring LTCs. DLA achieved 63,104 (58.2% of goal) timely renewals with .001% unplanned lapses as of September 2013. To improve on timely renewals, DLA is working with the PLFAs through what is called the STRATEGIC OPPORTUNITIES initiatives. Through the STRATEGIC OPPORTUNITIES initiative each PLFA identified projects that were awarded over FY 2013 and that will be awarded over FY 2014. All options from previously awarded contracts will be monitored for timely renewal. All opportunities for new contract awards, follow-on contracts and exercising options on existing contracts will be monitored by the Acquisition Program & Industrial Capabilities Division and 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. The end of FY 2013 LTC contract obligations rate was 76.3%. How we measure LTC performance is under review by DLA HQ management along with collaborative efforts from the PLFAs. Upon approval, the LTC performance tracking tool and goals will be published. Meanwhile, the DLA HQ will continue to track STRATEGIC OPPORTUNITIES initiatives established by the PLFA's.

FINANCIAL PERFORMANCE MEASURES

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

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

Unit Cost Results	FY 2013 Goal	FY 2013 Actual
DLA Materiel Supply Chains	$1.00	$1.00
DLA Distribution -Processing	$29.77	$26.14
DLA Distribution – Covered Storage	$5.84	$5.43
Disposition Services – Per Line [1]	$52.50	$43.63
DLA Disposition Services – Per Pound	$0.10	$.11

The DLA Materiel Supply Chains unit cost was $1.00, which matched the goal established for FY 2013. Unit cost is calculated by dividing operating costs (the sum of total obligations and credits) plus depreciation expense by gross sales at standard.

The DLA Distribution processing unit cost was $26.14, which was below the goal established for FY 2013 by $3.63 primarily due to actual costs being below budgeted by $96.3 million ($532.6 million budgeted vs. $436.3 million actual) as Distribution imposed spending constraints to compensate for lower than planned workload. 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 $5.43 or $0.41 lower than goal. This was achieved by close management of costs as actual costs were $67.1 million below plan ($352.7 million budgeted vs. $285.6 million actual). The actual covered storage workload of 52.6 million cubic feet was 7.8 million below plan.

Footnote 1: DLA Disposition Services recently completed a Reutilization Business Integration (RBI) deployment in April 2013, which has limited their reporting capability. DLA Disposition Services was not able to pull all of the details to support the unit cost results. Some of the reports and data will not be available until December 2013 or later. The above unit cost data was based on known workload data captured through March 2013. The six months of data was then doubled for estimated yearly totals. However, due to the implementation strategy, many sites were on RBI prior to March 2013 and were already experiencing compromised reporting. It is estimated that these unit costs are distorted compared to what they would be if all of the data were known, but it unknown at this time what the actual amounts would be.

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 2013 CRR goal was 13.4%. The actual CRR was 12.6%, which was 0.8% lower than the FY 2013 President's Budget and is attributed to expected costs being lower than plan while sales were lower than plan.

The DLA Energy Unit Cost is comprised of the Petroleum Material Costs and non-product costs (operations costs for fuel services, transportation, storage, and overhead). The Petroleum Product is the acquisition cost of a barrel of petroleum product purchased. Actual unit cost per barrel sold was $6.3 better than planned. This variance can be attributed to a higher composite product cost per barrel sold**.**

Unit Cost Results	**FY 2013 Goal**	**FY 2013 Actual**
Energy Unit Cost per barrel sold	$157.38	$163.68
Petroleum Product Cost per barrel	$139.92	$150.96

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 $445.0 million in FY 2013. The primary driver for the NOR financial gain is the receipt of reprogrammings offset by lower Supply Chain Management sales and higher Energy fuel purchases. The Agency's net outlays were $1.1 billion due to lower DLA sales and due to the NATO Blanket Order agreement fuel price adjustment.

($ in millions)	NOR	Net Outlays
DLA Energy	$ 803.7	$ 547.2
DLA Supply Chain Management	$-357.5	$ 552.9
DLA Document Services	$ -1.2	$ 0.0
DLA	$ 445.0	$1,100.1

DLA DISTRIBUTION

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

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

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 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.

MISSION

The mission of DLA Distribution is to leverage a global distribution network to enable logistics solutions. 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

DLA Distribution will continue to be the provider of choice for DoD through the delivery of value added services for our customers and leading the way in resource stewardship. We will:

- Implement standard processes across the enterprise to drive efficient and repeatable working processes, enabling consistent and predictable throughput
- Achieve audit readiness as the outcome of standardization, optimization and training initiatives
- Maximize flexibility through a trained and ready workforce
- Provide best value distribution solutions to our customers
- Safely execute the mission
- Improve how we operate

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

DLA Distribution's approach in FY 2014 is an offensive stance that puts primary efforts on the standardization of processes and the development of our workforce and leaders which enables all other efforts. Our focus is not limited to FY 2014 but a continual effort that postures us for success in the future.

More than 10,000 highly skilled employees provide timely distribution services to customers around the globe. In FY 2013, DLA Distribution processed over 16 million receipts and issues supporting customer operations worldwide, including support to combat operations, humanitarian assistance missions and a multitude of military exercises.

- **Standardization** –The focus for Standardization is to implement consistent work processes across the distribution network and develop management standardized processes.
- **Personnel** – The focus for Personnel is to provide premium service and value to our customer through the continual improvement of the workforce and its leaders.
- **Customer Solutions** – The focus of customer solutions is to identify customer requirements, design and develop new solutions and improve/refine current operations to ensure our customers receive the best value. Our goal is to align strategy to customer requirements to drive ends, ways and means in the distribution network.
- **Optimization** – The focus of Optimization is to continually refine DLA Distribution's capability to enable an effective and efficient network.
- **Operations** – The focus for Operations is to execute processes on time with quality and safety.

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 2.11 million gross square feet of space; reduced overhead costs and streamlined inventory and contributed to a cost savings of $11.0 million.

Integrated Distribution Strategy (IDS): The IDS continues to evolve with changing requirements. Distribution operations in Kuwait have closed. Distribution planning and support continue with CENTCOM as Afghanistan retrograde efforts intensify culminating with the dis-establishment of distribution operations in Kandahar in FY 2014. Additionally, we have in place a contractor owned, contractor operated facility in Bahrain to provide flexibility as CENTCOM reassesses the theater strategy. We continue to support multiple geographic regions from one distribution center. Defense Distribution Depot Europe supports EUCOM, AFRICOM and 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 IDS will continue to be refined and institutionalized across DLA Distribution activities.

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

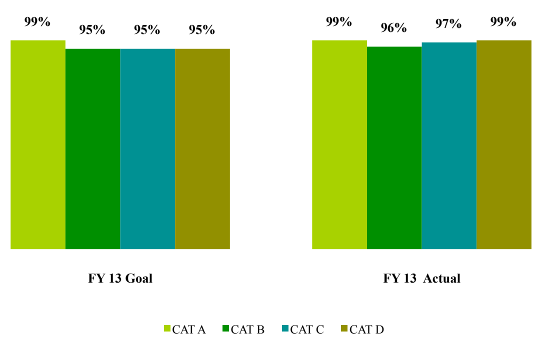
Performance Indicators reported in DLA Monthly Agency Performance Review (APR)

	FY13 TOTAL GOAL %	FY13 (YTD EOM SEP) TOTAL ACTUAL %
RECEIPTS:		
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% 90% 90% 90%	95.19% 94.81% 87.65% 95.02%
STOW:	FY13 TOTAL GOAL %	FY13 (YTD EOM SEP) 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% 90% 90% 90%	96.64% 97.65% 96.27% 95.03%

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 2013 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 2013 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2013, 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:

ISSUES:	FY13 TOTAL GOAL %	FY13 (YTD EOM SEP) 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)		84.28%
• Routine Requisitions (% shipped in 3 days)		83.90%
• Routine Military Service Requisitions (% shipped in 3 days)		87.14%
• Routine DLA Requisitions (% shipped in 5 days)		81.58%
• Dedicated Truck (% shipped by Next Scheduled Departure)		84.41%

DENIALS:	FY13 TOTAL GOAL %	FY13 (YTD EOM SEP) TOTAL ACTUAL %
Percentage of issues unavailable for orders due to material shortage against the total number of issues made. *Excludes weekends	0.45%	0.44%

FINANCIAL PERFORMANCE MEASURES

DLA Distribution measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Distribution unit cost results for processing and storage cost rates (the figures are as of the end of September FY 2013).

Unit Cost Results	**FY 2013 Goal**	**FY 2013 Actual**
Unit Cost-Total Composite Processing Rate	$ 29.77	$26.14
Unit Cost-Covered Storage	$5.84	$5.43

The Unit Cost-Total Composite Processing Rate measures processing costs (direct, indirect, and applied overhead) relative to the number of line items (receipts and issues) processed. The actual Unit Cost-Total Composite Processing Rate was below the goal by $3.63 primarily due to actual costs being below budgeted by $96.3 million ($532.6 million budgeted vs. $436.3 million actual) as Distribution imposed spending constrains to compensate for lower than planned workload. Actual number of line items processed was 2.4 million lower than planned.

The Unit Cost-Covered Storage measures the costs (direct, indirect, and applied overhead) to provide covered storage relative to the cubic footage used. The actual covered storage unit cost rate was $0.41 below the goal. This was achieved by close management of costs as actual costs were $67.1 million below plan ($352.7 million budgeted vs. $285.6 million actual). The actual covered storage workload of 52.6 million cubic feet was 7.8 million below plan.

DLA DISPOSITION SERVICES

The DLA Disposition Services operates through a central location headquartered in Battle Creek, MI, and 138 locations throughout the world. 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 2013, materiel with an estimated acquisition value over $17.0 billion was turned in to Disposition Services and $1.1 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 $101.5 million in FY 2013. By year’s end, this activity group employed 1,349 civilians, 12 active duty personnel, and we are supported by 6 reserve units with 232 service members.

MISSION

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

STRATEGIC GOALS

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

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

IMPROVING CUSTOMER SERVICE

Afghanistan Support: In FY 2013 DLA Disposition Services built capabilities for four sites through acreage expansion initiatives. DLA Disposition Services established a Support Operations (SPO) cell that is embedded with the CENTCOM Materiel Retrograde Element (CMRE). The Hub Based Disposal Operation (HBDO) went from concept to seven fully operational locations during FY 2013. This support enables retrograding units to dispose of the right property, in the right manner, as efficiently as possible. In FY 2013:

- 337.1 lbs of scrap was removed from Afghanistan
- 212 thousands of lbs of lithium batteries successfully flown from Afghanistan to Germany for treatment
- 2,377 vehicles were Demilitarized

Customer Relationship Management (CRM): In FY 2013 DLA Disposition Services developed a customer survey process. We set a goal to maintain a 90% customer satisfaction rate and 16% response rate. The Customer Engagement Strategy (CES) was expanded to include documentation of G15 level and higher customer visits. In FY 2013:

- There was a 92% customer satisfaction rate
- A 5% survey response rate

Health and Safety Program: 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 Voluntary Protection Plan (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 for employees and management and a reduction in mishaps 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.

- In FY 2013, the HDI Federal Center at Battle Creek, MI achieved Star Status. Additionally, in FY 2013, our DLA Disposition Services field sites in:
    - DLA Susquehanna achieved 69% completion of stage II
    - DLA Richmond achieved 69% completion of stage II
    - DLA Red River achieved 67% completion of stage III
    - DLA Ogden achieved 59% completion of stage II
    - DLA Pearl Harbor achieved 10% completion of stage II
    - DLA Kaiserslautern achieved 13% completion of stage II
    - DLA Oklahoma City (in strategic Pause) 35% completion of stage II
    - DLA Warner Robins (in strategic Pause) in stage I

    Star Sites:
    - Columbus
    - Norfolk
    - San Joaquin
    - HDIFC Battle Creek

REDUCE OPERATING COSTS

Price Reductions in Awarded Contracts: In FY 2013, DLA Disposition Services implemented the use of Reverse Auctions (RAs) as an automated, final negotiation technique in all competitive hazardous waste disposal and operational type contracts valued above $150,000. This effort resulted in an estimated direct savings of over $6.8 million. Additionally, a new Contract Line Item Number (CLIN) structure for Hazardous Waste (HW) disposal contracts was launched in a test solicitation that was issued during the 3rd quarter. The resultant contract, which will be awarded in FY 2014, will mirror commercial practices by identifying HW in container sizes, not pounds, and will be based on HW profiles. This will reflect the true disposal facility market cost. It will also eliminate, not shift, contractor risk.

Improved Acquisition Execution: In FY 2013, DLA Disposition Services sought to eliminate inefficiencies in acquisitions and contract management. The goal was to continue reducing Acquisition Lead Time (ALT) from FY 2011's ALT of 325 days to 210 days, in all non-GSA competitive contract actions in excess of $150,000. Progress was made as ALT was reduced to 203 days in FY 2013; resulting in an 11% reduction than what was achieved in FY 2012. DLA Disposition Services aims to attain a further reduction in ALT in accordance with a DLA "Time to Award" enterprise-wide team that is analyzing ALT and process improvements for all supply and service type contracts. Streamlining the HW Contracting Officer Representative (COR) process was another effort that was launched in FY 2013 by DLA Disposition Services. The strategy for an oversight model that reduces the need for DLA Disposition Services' COR presence for all contractor pickups without increasing risks and/or shifting it to the customer, was developed and incorporated into COR appointment letters. This type of oversight model is already successful in a few HW contracts. The next step is to communicate surveillance strategies to additional customers, and with their agreement, further launch the initiative.

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.

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 Black Berry-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.

REDUCE INVENTORY

Long Term Storage (LTS) Facility: DLA Disposition Services established a LTS facility at the DLA Land and Maritime to retain serviceable Demil Code B Munitions List Items and Demil Code Q Commerce Control List Items. Because these items were determined to be sensitive for reasons of national security, they are no longer eligible for transfer, donation, or sale. The Materiel Disposition Policy for Demil B and Sensitive Q Commerce Control List Items (CCLI) was signed July 12, 2013. Property with no demand within two (2) years or more is eligible for Ultimate Disposal. In FY 2013, we processed 5,020 downgrades consisting of 4,129 National Stock Number`s (NSNs), representing 201,504 pieces, with an Acquisition Value of $86.9 million, and freed up 6,036 pallet positions. This has freed up 59,332 square feet of warehouse space (thru 30 September, 2013). Eligible Items left to process: 133,037 DTIDs, 74,985 National Stock Numbers and 2,540,338 pieces. We will also coordinate the removal of 98% of the RCP Property being held (currently 32,593 Line Items).

ACHIEVE AUDIT READINESS

Reutilization Business Integration (RBI): Rollout of RBI to all field activities was completed in April 2013 with only minor disruptions in service to our customers. Generally, field offices were offline for a week while training was conducted and inventory was converted. At our Afghanistan offices this downtime was cut to less than 24 hours.

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 conducted a reduced ER schedule due to RBI deployment and conducted 11 ERs in FY 2013. Additionally, follow-up reviews are conducted at those sites that did not meet standards during the initial ER.

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).

- **LESO Customer Support – Strategic Partnerships.** LESO transferred $449 million (Original Acquisition Value) of property to Law Enforcement Offices and 37,466 thousand line items. This total decreased from the entire prior fiscal year by 17% in acquisition value and 45% in requisitions. LESO briefed at the National Sheriff's Association and the Airborne Law Enforcement Association that afforded the opportunity to share what the LESO program is about, the rules, and knowledge of property to be excess in the future. This had a positive impact on the abilities of the law enforcement community to requisition and properly maintain property through the program.

- **LESO Program Compliance – Property Accountability**. Program Compliance Reviews (PCRs) are a regulatory requirement for each participating state (50), territory (3), and the District of Columbia. PCRs must be conducted biannually; and, in FY 2013, LESO accomplished 28 reviews. In January 2013 LESO conducted a first time ever inventory for all controlled property. State Coordinators certified their entire property books. LESO conducted inventory reconciliation and continue to reconcile property books to ensure accurate accountability records. On July 1, 2013 LESO fielded and implemented a new property accounting system called Federal Excess Property Management Information System (FEPMIS) and replaced the old flawed system, the Law Enforcement Equipment Database System. LESO worked closely with IBM to design and build FEPMIS based on current requirements and processes. Accountability and responsibility of controlled property continues to be a major focus for LESO. In addition, LESO documentation (MOA, DLA Instruction and SOPs) has been updated to reflect importance of compliance/accountability and standardization.

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 and most Local Stock Numbers (LSN) are sent to these sites to identify a National Stock Number if it exists and verify the property's eligibility for release outside of DoD. At the beginning of FY 2011, the Controlled Property Centers (CPCs) were reorganized with operations changing from being centrally managed by a single program manager to the Local Area Managers. Therefore, in May FY 2011, the CPCs changed to CPBs under the operational control of the local Disposal Activity. In FY 2013, the sites performing CPB functions received over 15,083 batch lots, more than 136,770 lines of property were inspected, and over 13,678 lines of property were determined ineligible for release outside of DoD control.

Controlled Property Verification Office (CPVO): The Controlled Property Verification Office (CPVO) continually refines the processes to review items entering the Disposition

Services inventory and destined for release to the public through a series of reviews including: 100% review of National Stock Numbers received (worldwide - weekly), sales delivery orders from the field sites, Q-Tool (sales partner listing) and the sales partner's web site of items offered for sale. The CPVO works closely with the DoD DEMIL Coding Management Office (DDCMO) to coordinate the validation of the assigned FLIS DEMIL code for all NSNs that have not been previously verified by the DDCMO. The CPVO has achieved a 90% approval rate for Demilitarization (Demil) challenges and maintains timeliness metrics for each review process. In FY 2013, the CPVO reviewed over 1.2 million items and removed over 23 thousand items from sale. The CPVO maintains several automated research applications and EBS business rules that identify controlled property for all Disposition Services field sites. These applications include the Controlled Property Research (CPR) Tool, the Safe Alert Latent Defect (SALD) database, the Do Not Sell List which is distributed to the sales contractor, Nuclear Weapons Related Material and other controlled property categories including, but not limited to, F-14 components, body armor, military camouflage clothing and laboratory equipment.

Continuous Process Improvement (CPI): CPI is a valuable tool in achieving effectiveness and efficiency. DLA Disposition Services' goal is to make our processes more efficient, drive down costs where possible, increase our performance and customer support and meet our diverse customers' needs while continuing to maintain our focus on uncompromised protection of national security. DLA Disposition Services' continuous improvement approach is to weave an analytical, self-improving mindset throughout our culture, while embracing both formal and informal CPI thought processes. CPI is used to actively transform our workplace and Enterprise activities to achieve our vision as "the preferred choice for world-wide reuse and disposal solutions, and an integral partner in safeguarding national security and improving efficiency and effectiveness in the global supply chain". In FY 2013, DLA Disposition Services conducted a Camouflage Net Disposal Process project which produced an estimated cost avoidance of $2.3 million.

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 2013, DLA Disposition Services successfully reutilized, transferred, or donated over 200 thousand line items of excess property.

Humanitarian Assistance/Disaster Relief: DLA Disposition Services supported humanitarian assistance and disasters at home and abroad. In FY 2013, DLA Disposition Services Issued 1,192 line items with a value of $8.4 million to DoD Humanitarian Assistance Program (DoD

HAP). Hurricane Sandy efforts established contract support that committed 80 trucks, 246 roll offs and removed over 75 million lbs of debris.

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 2013 Goal	FY 2013 Estimated Actuals
Cost per line item	$52.50	$43.63
Cost per pound	$0.10	$0.11

Note: DLA Disposition Services recently completed a Reutilization Business Integration (RBI) deployment in April 2013 which has limited their reporting capability. DLA Disposition Services was not able to pull all of the details to support the unit cost results. Some of the reports and data will not be available until December 2013 or later. The above unit cost data was based on known workload data captured through March 2013. The six months of data was then doubled for estimated yearly totals.

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2013 and 2012

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING BALANCE SHEET
For the Years September 30, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,367,350	$ 1,517,843
Other Assets (Note 6)	124,925	124,925
Total Intragovernmental Assets	1,492,275	1,642,768
Cash and Other Monetary Assets (Note 7)	0	5,377
Accounts Receivable, Net (Note 5)	899,964	1,202,123
Inventory and Related Property, Net (Note 9)	18,902,854	21,354,354
General Property, Plant and Equipment, Net (Note 10)	1,944,439	1,604,306
Other Assets (Note 6)	39,196	31,657
TOTAL ASSETS	$ 23,278,728	$ 25,840,584
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 101,837	$ 131,058
Other Liabilities (Note 15 & 16)	444,055	675,607
Total Intragovernmental Liabilities	545,892	806,665
Accounts Payable (Note 12)	2,504,983	2,451,776
Military Retirement and Other Federal Employment Benefits (Note 17)	247,050	235,666
Environmental and Disposal Liabilities (Note 14)	570,140	195,003
Other Liabilities (Note 15 & Note 16)	214,969	210,615
TOTAL LIABILITIES	$ 4,083,034	$ 3,899,725
NET POSITION		
Cumulative Results of Operations - Other Funds	$ 19,195,694	$ 21,940,859
TOTAL NET POSITION	19,195,694	21,940,859
TOTAL LIABILITIES AND NET POSITION	$ 23,278,728	$ 25,840,584

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
Program Costs		
Gross Costs	$ 44,835,396	$ 52,075,452
(Less: Earned Revenue)	(40,561,345)	(50,449,319)
Net Program Costs Including Assumption Changes	4,274,051	1,626,133
Net Cost of Operations	$ 4,274,051	$ 1,626,133

DEEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,940,859	$ 21,017,372
Beginning balances, as adjusted	21,940,859	21,017,372
Budgetary Financing Sources:		
Appropriations used	230,135	1,400,627
Nonexchange revenue	(863)	(254)
Transfers-in/out without reimbursement	1,240,040	(1,023)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(106,688)	975,690
Imputed financing from costs absorbed by others	166,262	174,580
Total Financing Sources	1,528,886	2,549,620
Net Cost of Operations (+/-)	4,274,051	1,626,133
Net Change	(2,745,165)	923,487
Cumulative Results of Operations	$ 19,195,694	$ 21,940,859
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	-	400,627
Appropriations transferred-in/out	230,135	1,000,000
Appropriations used	(230,135)	(1,400,627)
Net Position	$ 19,195,694	$ 21,940,859

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Budgetary Resources:		
Recoveries of prior year unpaid obligations	2,815,849	1,712,918
Other changes in unobligated balance (+ or -)	(1,421,809)	(712,918)
Unobligated balance from prior year budget authority, net	1,394,040	1,000,000
Appropriations (discretionary and mandatory)	230,135	-
Contract Authority (discretionary and mandatory)	39,822,736	51,635,241
Spending Authority from offsetting collections (discretionary and mandatory)	(1,394,040)	(1,000,000)
Total Budgetary Resources	$ 40,052,871	$ 51,635,241
Status of Budgetary Resources:		
Obligations Incurred	40,052,871	51,635,241
Total Budgetary Resources	$ 40,052,871	$ 51,635,241

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 2012 data restated in the FY 2013 format.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
DLA SUPPLY MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 24,631,449	$ 20,890,072
Obligations incurred	40,052,871	51,635,242
Outlays (gross) (-)	(39,571,688)	(46,180,946)
Actual transfers, unpaid obligations (net) (+ or -)		1
Recoveries of prior year unpaid obligations (-)	(2,815,849)	(1,712,918)
Unpaid Obligations, end of year	22,296,783	24,631,449
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(9,722,602)	(8,065,926)
Change in uncollected pymts, Fed sources (+ or -)	(436,901)	(1,656,675)
Uncollected pymts, Fed sources, end of year (-)	(10,159,502)	(9,722,602)
Obligated balance, start of year (+ or -)	14,908,848	12,824,145
Obligated balance, end of year (+ or -)	$ 12,137,281	$ 14,908,848
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 38,658,831	$ 50,635,241
Actual offsetting collections (discretionary and mandatory) (-)	(38,471,357)	(44,224,847)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(436,901)	(1,656,675)
Budget Authority, net (discretionary and mandatory)	$ (249,427)	$ 4,753,719
Outlays, gross (discretionary and mandatory)	39,571,688	46,180,946
Actual offsetting collections (discretionary and mandatory) (-)	(38,471,357)	(44,224,847)
Outlays, net (discretionary and mandatory)	1,100,331	1,956,099
Agency Outlays, net (discretionary and mandatory)	$ 1,100,331	$ 1,956,099

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 2012 data restated in the FY 2013 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 148 production facilities. During FY 2013, DLA Document Services earned more than $249.7 million in revenue and employed 772 civilians at year-end. Major customers were: Defense Agencies (30.5%), Navy (28.3%), Army (20.4%), Air Force (15.8%) and non-DoD customers (5.0%).

MISSION

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

STRATEGIC GOALS

DLA Document Services is committed to the following goals:

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

DLA Enterprise Records Management Application (RMA) implementation began in FY 2013. The RMA will be used to store and manage all DLA records. Employees will be able to carry out disposition (destruction or transfer) of records at the appropriate time in accordance with approved retention schedules. Central management of all Agency records will enable enterprise search. A user can search for information on a topic and find data from multiple sources, including databases, e-mails, spreadsheets, and both electronic and paper documents. Enterprise search would produce more information to support better decision making. The RMA will also support the DLA financial audit effort, supporting the need for recovery of supporting documentation.

The National Geospatial-Intelligence Agency (NGA) Maps On-Demand program management has begun transferring to DLA Document Services in FY 2013. DLA Document Services has developed a maps on-demand capability, enabling on-demand and online access to NGA maps/charts. The NGA Deputy Director agreed to DLA assuming full production responsibility for maps/charts and CDs/DVDs when their current print contract expires. In May 2013, limited quantities of maps/charts and CDs/DVDs were produced at Document Services' Richmond, VA facility, with a phased transition to full production of 5 on-demand facilities. This initiative will result in printing, warehousing and shipping cost savings to the Department.

PROGRAM PERFORMANCE INDICATORS

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

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking DLA Document Services performance as "satisfied" or "very satisfied." DLA Document Services uses a survey, professionally prepared and administered by an independent entity, to determine an overall customer satisfaction rating. The overall satisfaction of 90%, with a margin of error of 2%, was below the 93% goal. The FY 2013 represents an improvement over FY 2012 results of 87%. The satisfaction level for the core business of printing products and services was 93%.

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 2013 Goal	FY 2013 Actual
Unit Cost per In-House Production Unit	.1090*	.1130

DLA Document Services produced 25% less in-house units than planned (992.2 million actual versus 1,318* million planned); and actual in-house costs were 22% lower than planned ($112.1 million actual versus $143.7 million planned). DLA Document Services was not able to reach its goal due to declining sales outpacing reduced costs.

*The President's Budget (PB)14 FY 2013 unit cost goal is .0783 and unit goal of 1,834 million. FY 2013 unit cost goal and unit goal shown above were adjusted to reflect the change in the recording of bindery units. The recording of bindery units was changed between PB 2013 and FY 2013 execution.

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 $11.2 million.

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DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 40,837	$ 41,926
Total Intragovernmental Assets	40,837	41,926
Accounts Receivable, Net (Note 5)	168	564
Inventory and Related Property, Net (Note 9)	2,260	2,931
General Property, Plant and Equipment, Net (Note 10)	17,207	24,338
Other Assets (Note 6)	4	4
TOTAL ASSETS	$ 60,476	$ 69,763
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 5,026	$ 3,290
Other Liabilities (Note 15 & 16)	1,519	1,547
Total Intragovernmental Liabilities	6,545	4,837
Accounts Payable (Note 12)	23,498	23,104
Military Retirement and Other Federal Employment Benefits (Note 17)	10,891	10,121
Other Liabilities (Note 15 & Note 16)	5,369	5,484
TOTAL LIABILITIES	$ 46,303	$ 43,546
NET POSITION		
Cumulative Results of Operations - Other Funds	$ 14,173	$ 26,216
TOTAL NET POSITION	14,173	26,216
TOTAL LIABILITIES AND NET POSITION	$ 60,476	$ 69,763

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
Program Costs		
Gross Costs	$ 265,671	$ 283,477
(Less: Earned Revenue)	(248,745)	(262,414)
Net Program Costs Including Assumption Changes	16,926	21,063
Net Cost of Operations	$ 16,926	$ 21,063

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2013 and 2012
(In Thousands)

	2013	2012
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 26,216	$ 17,365
Beginning balances, as adjusted	26,216	17,365
Budgetary Financing Sources:		
Nonexchange revenue	1	-
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(24)	24,487
Imputed financing from costs absorbed by others	4,906	5,424
Total Financing Sources	4,883	29,913
Net Cost of Operations (+/-)	16,926	21,063
Net Change	$ (12,043)	$ 8,851
Cumulative Results of Operations	14,173	26,216
Net Position	$ 14,173	$ 26,216

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Budgetary Resources		
Unobligated balance brought forward, October 1	$ 116,430	$ 127,423
Unobligated balance brought forward, October 1, as adjusted,	116,430	127,423
Recoveries of prior year unpaid obligations	25,890	20,410
Other changes in unobligated balance (+ or -)	(54)	-
Unobligated balance from prior year budget authority, net	142,266	147,832
Contract Authority (discretionary and mandatory)	1,207	1,269
Spending Authority from offsetting collections (discretionary and mandatory)	241,316	269,011
Total Budgetary Resources	$ 384,788	$ 418,112
Status of Budgetary Resources:		
Obligations Incurred	$ 268,633	$ 301,682
Unobligated balance, end of year		
Apportioned	116,155	116,430
Total unobligated balance, end of year	116,155	116,430
Total Budgetary Resources	$ 384,788	$ 418,112

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 2012 data restated in the FY 2013 format.

DEPARTMENT OF DEFENSE
DLA DOCUMENT SERVICES
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the years September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, Oct 1	$ 125,117	$ 144,481
Obligations incurred	268,633	301,682
Outlays (gross) (-)	(251,529)	(300,638)
Recoveries of prior year unpaid obligations (-)	(25,890)	(20,410)
Unpaid Obligations, end of year	116,331	125,117
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(79,402)	(85,606)
Change in uncollected pymts, Fed sources (+ or -)	8,579	6,203
Uncollected pymts, Fed sources, end of year (-)	(70,824)	(79,402)
Obligated balance, start of year (+ or -)	45,714	58,876
Obligated balance, end of year (+ or -)	$ 45,507	$ 45,714
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 242,522	$ 270,280
Actual offsetting collections (discretionary and mandatory) (-)	(251,553)	(276,149)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	8,579	6,203
Budget Authority, net (discretionary and mandatory)	$ (452)	$ 335
Outlays, gross (discretionary and mandatory)	251,529	300,638
Actual offsetting collections (discretionary and mandatory) (-)	(251,553)	(276,149)
Outlays, net (discretionary and mandatory)	(24)	24,489
Agency Outlays, net (discretionary and mandatory)	$ (24)	$ 24,489

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 2012 data restated in the FY 2013 format.

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Defense Logistics Agency
General Fund

Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2013 and 2012

UNAUDITED

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
CONSOLIDATED BALANCE SHEET
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,266,083	$ 1,122,629
Accounts Receivable (Note 5)	3,262	29,182
Total Intragovernmental Assets	1,269,345	1,151,811
Accounts Receivable, Net (Note 5)	18	(1)
General Property, Plant and Equipment,Net (Note 10)	795,149	653,351
Other Assets (Note 6)	118	1,595
TOTAL ASSETS	$ 2,064,630	$ 1,806,756
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 23,806	$ 4,002
Other Liabilities (Note 15 & 16)	4,834	4,730
Total Intragovernmental Liabilities	28,640	8,732
Accounts Payable (Note 12)	9,633	23,612
Military Retirement and Other Federal Employment Benefits (Note 17)	5,644	5,441
Environmental and Disposal Liabilities (Note 14)	291,497	227,452
Other Liabilities (Note 15 and Note 16)	3,661	4,596
TOTAL LIABILITIES	$ 339,075	$ 269,833
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	1,214,960	1,091,283
Cumulative Results of Operations - Other Funds	510,595	445,640
TOTAL NET POSITION	$ 1,725,555	$ 1,536,923
TOTAL LIABILITIES AND NET POSITION	$ 2,064,630	$ 1,806,756

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, 2013 and 2012
(In Thousands)

	2013	2012
PROGRAM COSTS		
Gross Costs	$ 812,288	$ 776,465
(Less: Earned Revenue)	(50,716)	(92,809)
Net Program Costs Including Assumption Changes	761,572	683,656
NET COST OF OPERATIONS	$ 761,572	$ 683,656

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, 2013 and 2012
(In Thousands)

	2013	2012
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 445,640	$ 439,968
Prior Period Adjustments:		
Beginning balances, as adjusted	445,640	439,968
Budgetary Financing Sources:		
Appropriations used	885,950	810,504
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(62,722)	(124,528)
Imputed financing from costs absorbed by others	3,301	3,352
Other (+/-)	(2)	(2)
Total Financing Sources	826,527	689,328
Net Cost of Operations (+/-)	761,572	683,656
Net Change	64,955	5,672
Cumulative Results of Operations	$ 510,595	$ 445,640
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 1,091,283	$ 895,074
Beginning balances, as adjusted	1,091,283	895,074
Budgetary Financing Sources:		
Appropriations received	941,586	1,001,798
Appropriations transferred-in/out	90,466	18,614
Other adjustments (rescissions, etc)	(22,425)	(13,699)
Appropriations used	(885,950)	(810,504)
Total Budgetary Financing Sources	123,677	196,209
Unexpended Appropriations	1,214,960	1,091,283
Net Position	$ 1,725,555	$ 1,536,923

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, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 275,877	$ 274,703
Unobligated balance brought forward, October 1, as adjusted, as Adjusted	275,877	274,703
Recoveries of prior year unpaid obligations	151,201	55,364
Other changes in unobligated balance (+ or -)	56,606	(12,301)
Unobligated balance from prior year budget authority, net	483,684	317,766
Appropriations (discretionary and mandatory)	953,019	1,019,014
Spending Authority from offsetting collections (discretionary and mandatory)	46,792	58,005
Total Budgetary Resources	$ 1,483,495	$ 1,394,785
Status of Budgetary Resources:		
Obligations Incurred	$ 995,447	$ 1,118,908
Unobligated balance, end of year		
Apportioned	458,469	250,469
Unapportioned	29,579	25,408
Total unobligated balance, end of year	488,048	275,877
Total Budgetary Resources	$ 1,483,495	$ 1,394,785

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 2012 data restated in the FY 2013 format.

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES (Continued)
For the Years Ended September 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 884,453	$ 687,978
Obligations incurred	995,447	1,118,908
Outlays (gross) (-)	(943,810)	(867,069)
Recoveries of prior year unpaid obligations (-)	(151,199)	(55,364)
Unpaid obligations, end of year	784,891	884,453
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(37,702)	(18,311)
Change in uncollected pymts, Fed sources (+ or -)	30,845	(19,391)
Uncollected pymts, Fed sources, end of year (-)	(6,857)	(37,702)
Obligated balance, start of year (+ or -)	846,751	669,667
3200 Obligated balance, end of year (+ or -)	$ 778,034	$ 846,751
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 999,811	$ 1,077,019
Actual offsetting collections (discretionary and mandatory) (-)	(77,637)	(38,615)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	30,845	(19,391)
Budget Authority, net (discretionary and mandatory)	$ 953,019	$ 1,019,013
Outlays, gross (discretionary and mandatory)	943,810	867,069
Actual offsetting collections (discretionary and mandatory) (-)	(77,637)	(38,615)
Outlays, net (discretionary and mandatory)	866,173	828,454
Agency Outlays, net (discretionary and mandatory)	$ 866,173	$ 828,454

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 2012 data restated in the FY 2013 format.

Defense Logistics Agency
General Fund

Notes to the Consolidated and Combined Financial Statements for the Fiscal Years Ended September 30, 2013 and 2012

Note 1. Significant Accounting Policies

A. Basis of Presentation

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

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

B. Mission of the Reporting Entity

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

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

C. Appropriations and Funds

The DLA GF receives appropriations and funds as general and working capital (revolving) funds. The DLA uses these appropriations and funds to execute its missions and subsequently report on resource usage. The general funds are 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	2013	2012
(Amounts in thousands)		
Nonfederal Assets		
Accounts Receivable	$ 0	$ 0
Total Nonfederal Assets	0	0
Total Nonentity Assets	$ 0	$ 0
Total Entity Assets	$ 2,064,630	$ 1,806,756
Total Assets	$ 2,064,630	$ 1,806,756

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.

Note 3. Fund Balance with Treasury

As of September 30	2013	2012
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,266,083	$ 1,122,629
Total Fund Balances	$ 1,266,083	$ 1,122,629
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 0	$ 0
Fund Balance per	1,266,083	1,122,629
Reconciling Amount	$ (1,266,083)	$ (1,122,629)

The DLA GF shows a $1,266,083,553.23 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	2013	2012
(Amounts in thousands)		
Unobligated Balance		
Available	$ 458,472	$ 250,472
Unavailable	29,579	25,408
Obligated Balance not yet Disbursed	$ 784,889	$ 884,451
NonFBWT Budgetary Accounts	$ (6,857)	$ (37,702)
Total	$ 1,266,083	$ 1,122,629

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.

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

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

Note 4. Investments and Related Interest

Note Applicable to DLA GF.

Note 5. Accounts Receivable

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

As of September 30	2012		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts 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

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

Note 6. Other Assets

As of September 30	2013	2012
(Amounts in thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 0	$ 0
Total Intragovernmental Other Assets	$ 0	$ 0
Nonfederal Other Assets		
Advances and Prepayments	118	1,595
Total Nonfederal Other Assets	$ 118	$ 1,595
Total Other Assets	$ 118	$ 1,595

Contract Financing Payments

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

Note 7. Cash and Other Monetary Assets

This was not applicable to DLA GF in FY 2013.

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 2013.

Note 10. General PP&E, Net

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

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

Legend for Valuation Methods:
N/A = Not Applicable

The DLA General Fund (GF) General Property, Plant and Equipment (General PP&E) consists of only Construction-in-Progress (CIP). The CIP is funded by the Military Construction and Family Housing appropriations. The CIP account is used to accumulate the costs of real property assets under construction until the construction is completed and the assets are available for use. These costs include direct labor, direct material and overhead, as well as engineering and design costs. When construction is completed and the constructed asset is available for use, the asset is transferred from the DLA GF CIP account to the appropriate 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 managed 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	2013	2012
(Amounts in thousands)		
Intragovernmental Liabilities		
Accounts Payable	$ 6	$ 0
Other	4,665	3,855
Total Intragovernmental Liabilities	$ 4,671	$ 3,855
Nonfederal Liabilities		
Accounts Payable	$ 6,443	$ 6,547
Military Retirement and Other Federal Employment Benefits	5,644	5,441
Environmental and Disposal Liabilities	260,186	185,813
Other Liabilities	2,204	3,724
Total Nonfederal Liabilities	$ 274,477	$ 201,525
Total Liabilities Not Covered by Budgetary Resources	$ 279,148	$ 205,380
Total Liabilities Covered by Budgetary Resources	$ 59,927	$ 64,453
Total Liabilities	$ 339,075	$ 269,833

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.

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

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 $5.6 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	2013		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 23,806	$ N/A	$ 23,806
Nonfederal Payables (to the Public)	9,632	1	9,633
Total	$ 33,438	$ 1	$ 33,439

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

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.

Note 13. Debt

Not Applicable to DLA GF.

Note 14. Environmental and Disposal Liabilities

As of September 30	2013	2012
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 238,773	$ 195,043
Environmental Corrective Action	1,469	381
Environmental Closure Requirements	695	2,340
Installation Restoration Program	50,560	29,688
Total Environmental Liabilities	$ 291,497	$ 227,452

The DLA Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the DERA and BRAC funded environmental restoration programs, and (2) anticipated future costs necessary to complete environmental restoration requirements at all DLA's environmental sites. In FY 2013, DLA utilized Version 11.1 of the Remedial Action Cost Engineering & Requirements (RACER) software to generate the fiscal year (FY) 2014 Cost to Complete (CTC) estimates of anticipated future costs. Cost estimates were generated for 91 Defense Environmental Restoration Program (DERP), 94 Non- Base Realignment and Closure (Non-BRAC) sites, 1 Non-BRAC Corrective Action site, and 1 Base Realignment and Closure (BRAC) sites.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

The DLA estimates future Non-BRAC costs associated with closure of General Property, Plant, and Equipment (PP&E) using RACER. In accordance with the DoD Financial Management Regulation Volume 4, Chapter 13, the PP&E closure 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 the FY 2014 CTC resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. DLA's EL also resulted in an increase due to changes in the FY 2014 CTC methodology for estimating the duration of program management costs. The DLA's ELs are expected to fluctuate due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2014 CTC has incorporated the DoD inflation factors into the BRAC, DERP and Non-BRAC closure estimates. The latest version of RACER was used to re-baseline estimates.

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

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

DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible. Due to the 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.

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

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	$ 458	$ 9,326

Composition of Other Lines

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

Note 16. Commitments and Contingencies

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

Note 17. Military Retirement and Other Federal Employment Benefits

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

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

Actuarial Calculations

The DLA actuarial liability for workers' compensation benefits is developed by the 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 2013 is the Federal Employees Compensation Act (FECA).

Actuarial Cost Method and Assumptions

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

2.293% in Year 1
3.138% 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) 2013 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
2013	2.83%	3.65%
2014	2.03%	3.66%
2015	1.93%	3.72%
2016	2.00%	3.73%
2017+	2.03%	3.80% and thereafter

The model's resulting projections were analyzed to ensure 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 2013 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three years.

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

Programs upon Which Actuarial Calculation are Based (Retirement Systems)

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

Remarks: The interest rate assumptions and COLAs and CPIMs projections are for 2012. The rate and projections will be updated after DOL publishes the CBY, COLA and CPIM's data for 2013.

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

Intragovernmental Costs and Exchange Revenue				
As of September 30		2013		2012
(Amounts in thousands)				
Operations, Readiness & Support				
Gross Cost				
Intragovernmental Cost	$	396,655	$	338,965
Nonfederal Cost		140,170		158,249
Total Cost	$	536,825	$	497,214
Earned Revenue				
Intragovernmental Revenue	$	(26,081)	$	(42,015)
Nonfederal Revenue		2,028		0
Total Revenue	$	(24,053)	$	(42,015)
Total Net Cost	$	512,772	$	455,199
Procurement				
Gross Cost				
Intragovernmental Cost	$	0	$	48
Nonfederal Cost		8,562		12,001
Total Cost	$	8,562	$	12,049
Total Net Cost	$	8,562	$	12,049
Research, Development, Test & Evaluation				
Gross Cost				
Intragovernmental Cost	$	39,119	$	27,505
Nonfederal Cost		217,544		200,693
Total Cost	$	256,663	$	228,198
Earned Revenue				
Intragovernmental Revenue	$	(20,707)	$	(16,003)
Nonfederal Revenue		(385)		(111)
Total Revenue	$	(21,092)	$	(16,114)
Total Net Cost	$	235,571	$	212,084

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

Family Housing & Military Construction		2013		2012
Gross Cost				
Intragovernmental Cost	$	9,099	$	5,636
Nonfederal Cost		1,139		33,368
Total Cost	$	10,238	$	39,004
Earned Revenue				
Nonfederal Revenue		(5,571)		(34,680)
Total Revenue	$	(5,571)	$	(34,680)
Total Net Cost	$	4,667	$	4,324
Consolidated				
Gross Cost				
Intragovernmental Cost	$	444,873	$	372,154
Nonfederal Cost		367,415		404,311
Total Cost	$	812,288	$	776,465
Earned Revenue				
Intragovernmental Revenue	$	(46,788)	$	(58,018)
Nonfederal Revenue		(3,928)		(34,791)
Total Revenue	$	(50,716)	$	(92,809)
Total Net Cost	$	761,572	$	683,656

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

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

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

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

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

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2013.

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

Effective with FY 2013 reporting, the Department has elected an alternative presentation for the Statement of Changes in Net Position (SCNP) as provided for in Statement of Federal Financial Accounting Standards (SFFAS) No. 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds. Prior to the implementation of SFFAS 43, the SCNP contained separate columns for reporting of funds from dedicated collections. Beginning in FY 2013, the SCNP will provide a reference to the “Funds from Dedicated Collections” footnote and will no longer include separate columns on the face of the statement.

Appropriations Received on the SCNP does not agree with Appropriations on the Statement of Budgetary Resources. The difference of $11.4 million is due to additional resources included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources for further information.

Budgetary Financing Sources, Other Adjustments (rescission, etc.) consists of canceled expired appropriations no longer available for obligation.

Note 20. Disclosure Related to the Statement of Budgetary Resources

As of September 30	2013	2012
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 756,413	$ 863,982
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. Category A did not contain Obligations Exempt from Apportionment. The table below summarizes the apportionment categories.

($ millions)	**Category A**	**Category B**	**Totals**
Direct Obligations Incurred	574.8	0.0	574.8
Reimbursable Obligations Incurred	42.2	0.0	42.2
Obligations Exempt From Apportionment	0.0	0.0	0.0
Total	617.0	0.0	617.0

The SBR includes intra-entity transactions because the statements are presented as combined.

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30 (Amounts in thousands)	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 995,447	$ 1,118,908
Less: Spending authority from offsetting collections and recoveries (-)	(197,994)	(113,369)
Obligations net of offsetting collections and recoveries	$ 797,453	$ 1,005,539
Net obligations	$ 797,453	$ 1,005,539
Other Resources:		
Transfers in/out without reimbursement (+/-)	(62,722)	(124,528)
Imputed financing from costs absorbed by others	3,299	3,350
Other (+/-)	(2)	(2)
Net other resources used to finance activities	$ (59,421)	$ (121,176)
Total resources used to finance activities	$ 738,032	$ 884,363
Resources Used to Finance Items not Part of the Net Cost of Operations:		

As of September 30 (Amounts in thousands)		2013		2012
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
Undelivered Orders (-)	$	107,567	$	(192,403)
Unfilled Customer Orders		(4,927)		(154)
Resources that fund expenses recognized in prior Periods (-)		(1,618)		(2,661)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Other (+/-)		62,722		124,528
Total resources used to finance items not part of the Net Cost of Operations	$	163,744	$	(70,690)
Total resources used to finance the Net Cost of Operations	$	901,776	$	813,673
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Period:				
Increase in annual leave liability	$	0	$	114
Increase in environmental and disposal liability		64,047		37,853
Other (+/-)		287		138
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	64,334	$	38,105
Components not Requiring or Generating Resources:				
Revaluation of assets or liabilities (+/-)		9,641		4,513
Other (+/-)				
Other		(214,179)		(172,635)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	(204,538)	$	(168,122)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$	(140,204)	$	(130,017)
Net Cost of Operations	$	(140,204)	$	(130,017)

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

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

DLA adjusted the note schedule in the amount of ($19,123.44) 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).

Total Components of Net Cost of Operations that will Require or Generate Resources in future periods: Other consists of unemployment compensation and FECA expenses and actuarial liability for workers compensation benefits.

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 the DLA General Fund.

Note 23. Funds from Dedicated Collections

This is not applicable to the DLA General Fund.

Note 24. Fiduciary Activities

This is not applicable to the DLA General Fund.

Note 25. Other Disclosures

This is not applicable to the DLA General Fund.

Note 26. Restatements

This is not applicable to the DLA General Fund.

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