Defense Logistics Agency
Annual Financial Report
Fiscal Year (Unaudited) 2016

DEFENSE LOGISTICS AGENCY

DEFENSE WORKING CAPITAL FUND, GENERAL FUND AND TRANSACTION FUND

FISCAL YEAR (FY) 2016 ANNUAL FINANCIAL REPORT

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INTRODUCTION

The Defense Logistics Agency (DLA) is the Combat Logistics Support Agency of the Department of Defense (DoD). DLA's Annual Financial Report (AFR) for fiscal year (FY) 2016 provides fiscal and high-level performance results that enable the President, the Secretary of Defense, the Congress, and the American people to assess DLA's performance for the reporting period October 1, 2015 through September 30, 2016. The AFR provides an overview of the programs, accomplishments, challenges, and accountability for the resources entrusted to the Agency. This report was prepared in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

ORGANIZATION OF THIS REPORT

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

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

- The DLA Chief Financial Officer (CFO) message followed by the unaudited financial statements and accompanying footnotes.

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

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

DLA WELCOMES YOUR COMMENTS

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

MESSAGE FROM THE DIRECTOR
OCTOBER 2016

As the Director of the Defense Logistics Agency (DLA), I am pleased to present the Fiscal Year (FY) 2016 Agency Financial Report (AFR). This report details and highlights our accomplishments, challenges and reflects our dedication and commitment to our organizational goals, processes, and performance.

Because our nation has a powerful military force that responds to challenges, at a moment's notice across the globe, our Warfighters rely on DLA to provide first-class support. As DLA encounters significant fiscal and strategic challenges such as, improving Warfighter's support and reduction costs to support the goals and objectives of the Department of Defense, DLA continues to seek ways to get the best deals while focusing on providing efficient service.

Our nation expects and demands excellence. Therefore, our mission is to ensure that superior logistics support as we are faced with budget uncertainty. Here, at DLA, we are committed to our nation's warfighters and we can overcome outstanding obstacles for them. Additionally, we successfully demonstrated that we are committed stewards of taxpayers' money and will continue to provide excellent service to the Warfighters.

Throughout the year, DLA has continued to focus on the Agency's mission "*Provide effective and efficient global solutions to Warfighters and our other valued customers" and vision," Delivering the right solution on time, every time"*. We are committed to the five goals of our strategic plan for 2015-2022, Warfighter first, People and Culture, Strategic Engagement, Financial Stewardship, and Process Excellence. We continuously strive for the highest performance by providing our customers, the Army, Marine Corps, Navy, Air Force, federal and state agencies, and international partners, with outstanding support and services. As well as strengthen relationships, a key part of achieving our mission.

Our Agency has moved from audit readiness and to audit sustainment. Last year, I signed a letter informing the Office of the Under Secretary of Defense (Comptroller), we are ready for audit. At this time, we began preparing for the Independent Public Accounting (IPA) audit which began this year. We are confident in our abilities to provide auditors with DLA's business processes and evidential matter to support day to day transactions. As we enter into the new fiscal year, DLA will continue to support the Warfighter with reliable financial information and resources while meeting the Department's challenges, no matter how difficult or complex.

ANDREW E. BUSCH
Lieutenant General, USAF
Director

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATIONAL STRUCTURE

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

DLA sources and provides almost every consumable item used by American military forces worldwide. It manages nearly 5.1 million separate line items and disseminates logistics catalog information for land and maritime parts for weapon systems, fuel, and critical troop–support items involving food, clothing and textiles (C&T), medical, industrial hardware, and construction equipment and materiel. Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution; reutilization or disposal of surplus military assets; managing the defense national stockpile of strategic materiel; and providing catalogs and other logistics information and services, and document automation and production services.

DLA'S MISSION VISION AND VALUES

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

DLA employs 25,070 civilian personnel, 532 active duty military personnel, and 590 reserve personnel who operate a $42.0 billion global enterprise in 28 countries. They manage nearly 5.1 million items in 9 supply chains and support more than 2,300 weapon systems. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. Organizing as a single, integrated business enterprise enables DLA to focus on supporting the DoD's supply chains, enhancing the Armed Forces' readiness, and providing for the Warfighter during contingency operations.

Figure 1 shows DLA's organizational chart.

Figure 1

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

- **DLA Aviation,** headquartered in Richmond, Virginia, operates in 18 stateside locations, supporting more than 1,340 major weapon systems, with focused support to 130 major weapon systems. It is the U.S. military's integrated materiel manager for more than 1.2 million repair parts and operating supply items in support of all fixed- and rotor-wing aircraft, including spares for engines on fighters, bombers, transports, and helicopters; all airframe and landing gear parts; flight safety equipment; and propeller systems.

- **DLA Disposition Services,** headquartered in Battle Creek, Michigan, manages the disposal of excess property received from the Military Services. It has offices in 40 states, 15 foreign countries, and 2 U.S. territories; and manages operations that stretch across 11 time zones ranging from Europe to the Pacific regions. DLA Disposition Services provides DoD with services for the disposal of property no longer needed for national defense, complies with legislative and regulatory requirements for the appropriate disposal of property, protects the public from dangerous defense items, and pursues maximum value for tax dollars.

- **DLA Distribution,** headquartered in New Cumberland, Pennsylvania, is responsible for the receipt, storage, issuance, packing, preservation, and transportation of more than 4 million items worldwide. It operates a network of 26 distribution centers around the world that provide timely and quality support to the Warfighters. Its Global Stock Position Plan ensures rapid distribution of critical military items. DLA Distribution's overseas distribution operations are located in Germersheim, Germany, and Sigonella, Italy.

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

- **DLA Land and Maritime,** headquartered in Columbus, Ohio, is responsible for maritime and land-based weapons systems under DLA's materiel management approach. DLA Land and Maritime has a profound effect on national defense by supplying the Armed Forces with $3.0 billion worth of materiel annually. Land and Maritime, DLA's first PLFA, has been called upon to supply every major military engagement since World War I.

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

The J/D –Codes within DLA support DLA's core functions. These include:

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

- **DLA Office of the Inspector General** provides DLA leadership with facts and recommendations, by executing the five functions of Defense Inspectors General: teaching and training, assistance, inspections, audits, and investigations, to mitigate Agency risk, improve processes, ensure compliance, and optimize resources.

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

- **DLA Human Resources (J1)** provides the full range of human resources services, both policy and operational, for DLA's civilian and active duty military employees. DLA Human Resources (HR) finds, hires, trains, and sustains a mission-ready workforce for DLA and our HR customers, using world class policies, processes, programs, and tools.

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

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

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

- **DLA Acquisition (J7)**, as 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 DLA Contracting Services Office; 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 (J8)** is responsible for obtaining and allocating resources, analyzing execution, providing fiscal guidance and advice to support the Agency, its business areas, and its field activities in accomplishing DLA's mission in a manner which provides the best return on investment to the taxpayer.

- **DLA Joint Reserve Force (J9)** provides DLA with trained, ready, and available Reservists from all Service components for worldwide contingency operations and support of peacetime operations, wartime surge requirements, and logistics planning.

Figure 2, shows the locations of the major DLA offices.

Figure 2

AGENCY GOALS AND OBJECTIVES

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

Figure 3

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

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

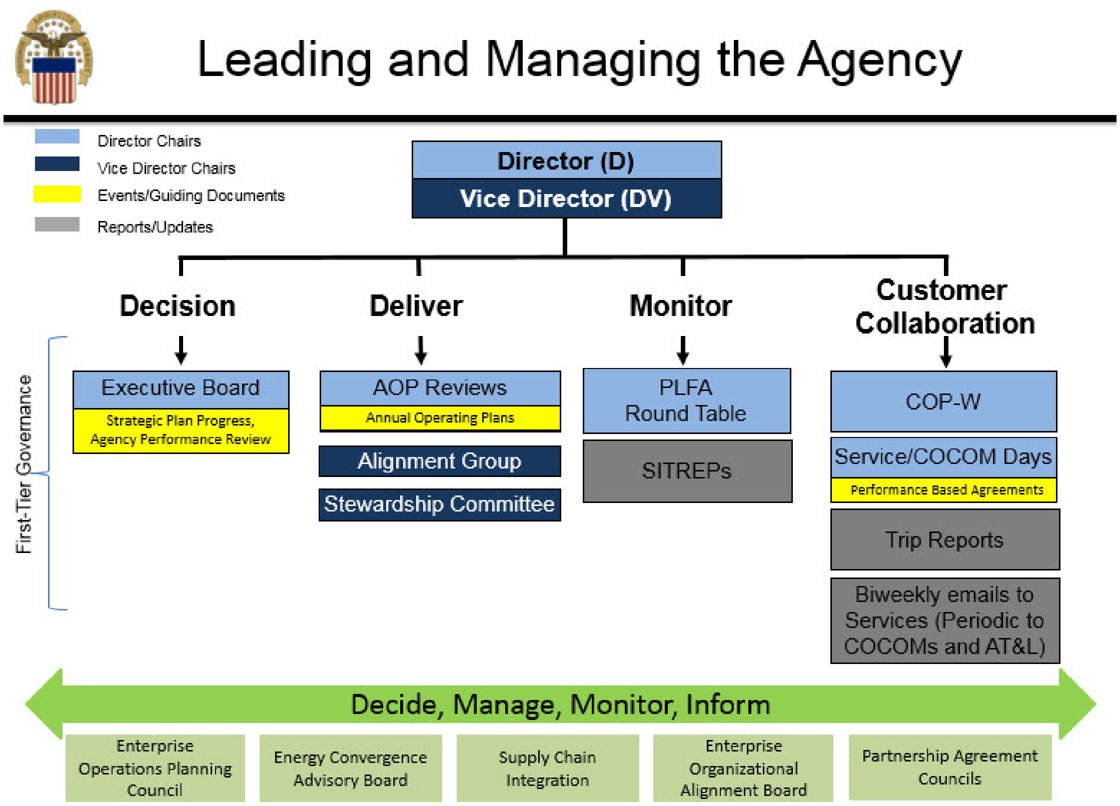

Figure 4

This Program Cost Reduction plan, which uses FY 2014 as the baseline, targets $13.1 billion in 6 years by FY 2019. Figure 5 shows the reductions by operating expenses, costs of materials, and the overall reduction of $13.1 billion in costs by FY 2019. Details on the individual PLFAs and staff reductions are contained in the individual Agency Operating Plans (AOPs). Please contact DLA at http://www.dla.mil/AboutDLA/ContactUs.aspx to request copies of AOPs.

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

Figure 5

ANALYSIS OF DLA'S FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

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

DLA'S FUNDING SOURCES

DLA receives funding through its Defense-wide Working Capital Fund (DWWCF), General Fund (GF), and Transaction Fund (TF). DLA prepares financial statements and footnotes for the Defense Working Capital Fund (DWCF), GF and TF. The DWCF, GF, and TF statements are presented for FYs 2016 and 2015 in the Financial Section of this AFR.

DEFENSE WORKING CAPITAL FUND

In FY 2016, the DWCF financed $34.2 billion, making it the DLA's primary source of financing for operations. Ninety-eight percent of the Agency's budget is resourced through this fund in which the agency's operating expenses are funded by revenues from customer purchases. This financing model identifies the cost to produce goods and services enabling the customer to use pricing and delivery information in its decision-making process. This visibility also supports DLA's performance measures that ensure DLA activities operate consistently within budget execution targets, address program requirements, and foster productivity improvements. Each fiscal year, DLA either retains or returns funds to the DWCF and other DoD appropriations.

Supply Chain Management

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

  - Logistical Processes at each DLA PLFA (Energy, Aviation, Land and Maritime, DLA Troop Support, Distribution and Disposition Services) include centralized management of logistics catalog information, repair parts, operating supply items, food, medical supplies, construction materiel and equipment, clothing and textiles and industrial hardware.

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

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

- o DLA Energy provides comprehensive worldwide energy solutions to the DoD and other authorized customers. DLA Energy serves as the Department's executive agent for the bulk petroleum supply chain. The DLA Energy business includes sales of petroleum and aerospace fuels; arranging for petroleum and aerospace support services; providing facility/equipment maintenance on fuel infrastructure; performing energy-related environmental assessment and cleanup; coordinating bulk petroleum and aerospace transportation; and performing petroleum quality surveillance functions worldwide. DLA Energy also performs procurement functions for electricity and natural gas for the Military Services as well as for the privatization of their utility systems.

DLA Information Operations Document Services

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

GENERAL FUND

The GF is appropriated by Congress, which also grants authority to the Office of the Secretary of Defense (OSD) and its Components to obligate funds in support of mission requirements. Both detail and summary-level financial reports are available to make suitable management decisions pertaining to the allocation and use of the GF.

In FY 2016, DLA received just over $872.6 million in GF direct appropriations, which accounted for approximately two percent of DLA's total budget program. The GF includes five appropriations:

- **Operations and Maintenance (O&M)** received $368.7 million to fund DLA Headquarters Programs (HQP), DoD Programs (DDP), and Enterprise Business Systems (EBS). HQP programs include approximately 20 programs that are associated with the DLA Logistics mission, such as Contingency Logistics, Warstoppers, Mapping, Procurement Technical Assistance Program, and Unemployment Compensation. The DDP programs include approximately ten offices for which DLA either provided administrative support or had program oversight, such as the Defense Program Accountability System, and the Continuity of Operations Program. The EBS includes approximately seven programs such as the Defense Agencies Initiatives (DAI) and the Standard Procurement System.

- **Research, Development, Test & Evaluation (RDT&E)** received $214.3 million to support programs such as Defense MicroElectronics Activity, U.S. Transportation Command, Logistics Research and Development Technology, and Industrial Preparedness Manufacturing Technology, in addition to several EBS programs.

- **<u>Military Construction (MILCON)</u>** received $275.7 million to fund major construction projects to replace, renovate, or build new facilities and fuels infrastructure.

- **<u>Procurement Defense-Wide (PDW)</u>** received $12.9 million to fund the purchase of mission essential equipment, including, telecommunications equipment, automated data processing equipment, and passenger carrying motor vehicles.

- **<u>Family Housing O&M</u>** received $955 thousand to support 124 units at the Distribution Depot in Susquehanna, Pennsylvania.

Figure 6 shows the distribution of GF funds in FY 2016.

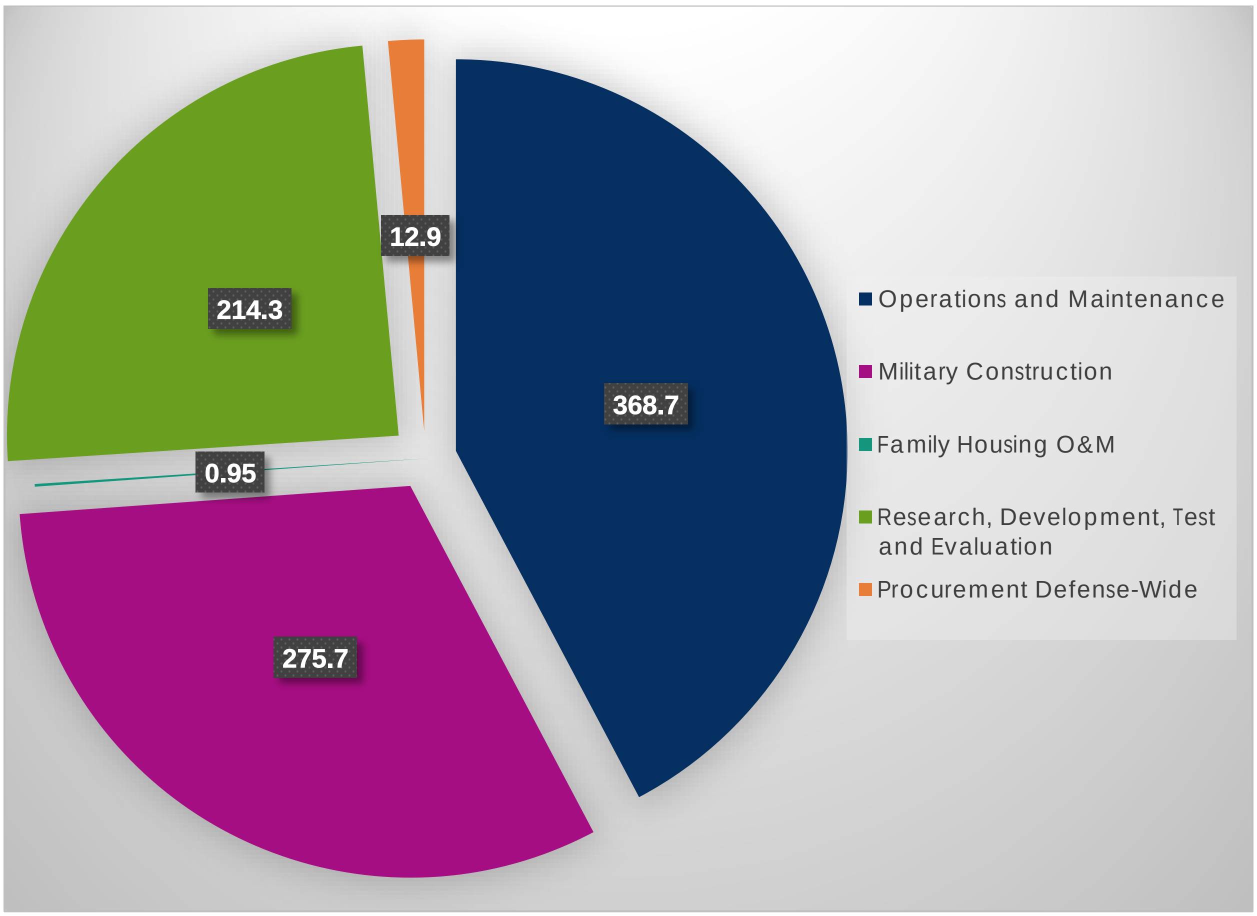

Figure 6

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

DLA also manages DLA Strategic Materials, a separate revolving fund with $1.4 billion in total assets and $248.0 million in its Transaction Fund for FY 2016. 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.

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

ANALYSIS OF DLA'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

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

DLA evaluated the system of internal controls in accordance with the guidelines below. The results indicate that DLA, taken as a whole, complies with the requirement to provide reasonable assurance that the Agency achieved its internal control objectives. DLA conducted its assessment of the effectiveness of internal controls over nonfinancial operations, financial reporting, and financial systems' conformance in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix A, "Internal Control over Financial Reporting," and Appendix D, "Compliance with the Federal Financial Management Improvement Act of 1996." Based on the results of this assessment, DLA was able to provide a qualified statement of assurance that the internal controls as of June 30, 2016, were operating effectively, with the exception of 22 material weaknesses under Section 2 and 4 non-conformances under Section 4.

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

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA)

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

INTERNAL CONTROL OVER NONFINANCIAL OPERATIONS (ICONO)

DLA began FY 2016 with a review of its high-risk areas. The Agency determined its Enterprise Risk Profile through a top-down and bottom-up approach that included gathering details through the DLA Enterprise Risk Management Community of Practice and senior leadership engagement to determine the final profile. This provided a portfolio view of risk and vulnerabilities that was cross-walked to specific processes and test plan scopes used by the enterprise to provide detail on the mitigation strategy for each risk. Using the Government Accountability Office's Standards for Internal Control in the Federal Government (the "Green Book"), DLA cross-walked the control environment detail to the Committee of Sponsoring Organizations of the Treadway Commission framework and developed an information sheet that supported the Green Book's 17 Components of Internal Control. Figure 7 shows, DLA evaluated 57 processes, 171 operational controls, with only 13 failures and 15 exceptions. The failures have plans of action and milestones for corrective action and monitoring.

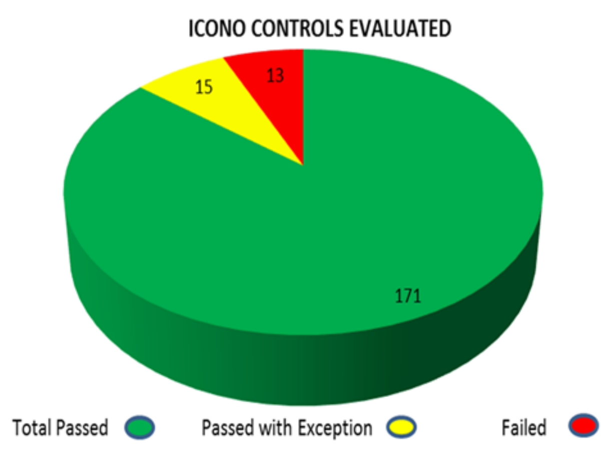

Figure 7

INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR)

DLA provided a qualified Statement of Assurance that, as of June 30, 2016, its ICOFR was operating effectively, with the exception of the identified material weaknesses (that were corrected by the end of the fiscal year). DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner. As part of the Audit Readiness initiative, DLA evaluated the control environment for financial reporting and financial system compliance. During the fiscal year, DLA identified and corrected 13 material weaknesses over financial reporting. Below Figure 8, shows the ICOFR controls evaluated.

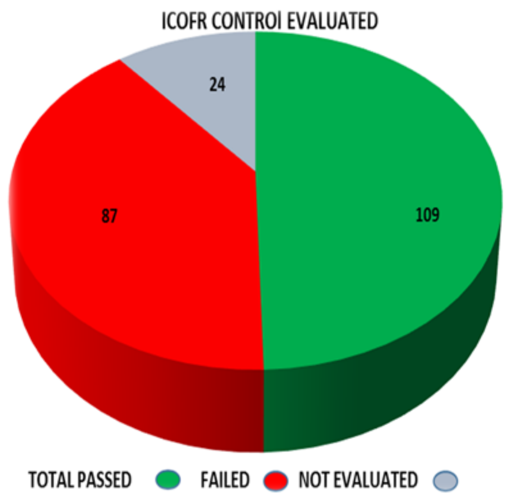

Figure 8

Details of DLA's material weaknesses, as well as status of corrections and estimated completion timeframes, are included in the complete Statement of Assurance, which can be found in Appendix 2 – DLA's Fiscal Year 2016 Annual Statement of Assurance. The Director's Statement of Assurance (without the Attachments) is presented on the next page.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FORT BELVOIR, VIRGINIA 22060-6221

2 5 JUL 2016

IN REPLY
REFER TO

MEMORANDUM FOR SECRETARY OF DEFENSE

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

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2016

As Director, Defense Logistics Agency (DLA), I recognize that DLA is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Tab A provides specific information on how DLA conducted the assessment of operational internal controls, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, and provides a summary of significant accomplishments and actions taken to improve DLA internal controls during the past year.

DLA conducted its assessment of the effectiveness of internal controls over non-financial operations in accordance with FMFIA and DoDI 5010.40. Tab A-1 provides specific information on how DLA conducted this assessment. Based on the results of this assessment, DLA is able to provide a modified statement of assurance that the internal controls over non-financial operations as of September 30, 2016, were operating effectively with the exception of six material weaknesses noted in Tab B.

DLA conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting. Tab A-1 provides specific information on how DLA conducted this assessment. Based on the results of this assessment, DLA is able to provide a modified statement of assurance that the internal controls over financial reporting as of June 30, 2016, were operating effectively with the exception of thirteen material weaknesses noted in Tab C.

DLA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the Federal Financial Management Improvement Act (FFMFIA) of 1996 (Public Law 104-208) and the DoDI 5010.40. Tab A-1 provides specific information on how DLA conducted this assessment. Based on the results of this assessment, DLA is able to provide an unmodified statement of assurance that the internal controls over the integrated financial management systems as of June 30, 2016, are in compliance with the FFMIA and OMB Circular A-123 Appendix D.

ANDREW E. BUSCH
Lieutenant General, USAF
Director

FINANCIAL MANAGEMENT SYSTEMS

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

DLA FINANCIAL SYSTEMS

The testing status of the 11 relevant financial systems includes IT General Controls (ITGC) and Application Security (AS) Business Process Controls (BPC) determined to be in-scope based on Federal Information Systems Controls Audit Manual (FISCAM) guidance. Deficiencies identified have been aligned to the appropriate Corrective Action Plans (CAPs) issued for the Enterprise control areas.

ENTERPRISE CONTROL AREA

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

DLA Information Operations (J6) conducted an internal ICOFS review that provided qualified assurance (with deficiencies noted) that, as of June 30, 2016, DLA's ICOFS complied with FFMIA and OMB Circular No. A-123. Testing for DLA's systems uses the FISCAM testing procedures at the enterprise level. DLA has completed testing for the ITGC environment for DLA's 11 applicable systems:

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

INTERNAL CONTROLS OVER FINANCIAL SYSTEMS (ICOFS)

DLA is able to provide an unmodified statement of assurance that the internal controls over the integrated financial management systems as of June 30, 2016, are in compliance with the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-123 Appendix D.

Enterprise ITGC Testing Status as of June 30, 2016:

Control Area Name	Final Assessment Completion Date	# ITGC Attributes derived from FISCAM	# of Total Notice of Findings (NOF) issued	Final Corrective Action Plan Issued	CAPs Validated as Completed	Management Assurance Provided
Security Management (SM)	4/30/2016	16	1 (ECD: 12/31/2016)	1	In Progress	Unmodified
Access Controls (AC) – Account Management	4/29/2016	16	2 (ECD 11/30/2016)	2	In Progress	Unmodified
Access Controls (AC) – Audit Logging	5/30/2016	10	0	0	N/A	Unmodified
Configuration Management (CM)	7/8/2016	9	0	0	0	Unmodified
Segregation of Duties (SoD)	5/30/2016	13	6 (ECD: 11/30/2016)	2	In Progress	Unmodified
Contingency Planning (CP)	4/29/2016	8	0	0	N/A	Unmodified

CURRENT TESTING STATUS – FFMIA OVERVIEW

FY 2015 Testing has been completed and all identified CAPs and associated deficiencies have been remediated based on the effective implementation of controls across the J6 organization. DLA's established Financial Improvement Plans will address all identified weaknesses with monthly updates to the OUSD (Comptroller). The below table identifies the 8 systems that were identified as in-scope for FFMIA assessments:

Current Testing Status – FFMIA Overview (As of May 1, 2016) includes Federal Financial Management Requirements (FFMR) and Treasury Financial Manual (TFM) requirements and Notice of Findings (NOF):

DLA Systems:

System Name	Final FY 2015 FFMIA Report Date	# FFMR TFM In-Scope	# of Total NOFs issued	NOFs Validated as Completed	2016 A-123 Applicable Testing of FFMR/TFM	# of Total NOFs issued	NOFs Validated as Completed	Mgmt. Assurance Provided
DMLSS-W	9/30/2015	49	4	0	0	0	0	Compliant
DSS	9/30/2015	94	18	18	52	0	0	Compliant
EAGLE	9/30/2015	37	0	0	11	0	0	Compliant
EBS	9/30/2015	890	10	7	In-Progress	In-Progress	In-Progress	Compliant
FMD	9/30/2015	83	7	6	0	0	0	Compliant
STORES	9/30/2015	32	1	1	0	0	0	Compliant

Defense Business Systems:

System Name	Final FY 2015 FFMIA Report Date	# FFMR TFM In-Scope	# of Total NOFs issued	NOFs Validated as Completed	2016 A-123 Applicable Testing of FFMR/TFM	# of Total NOFs issued	NOFs Validated as Completed	Mgmt. Assurance Provided
DAI	9/30/2015	791	10	6	In-Progress	In-Progress	In-Progress	Compliant
iRAPT	9/30/2015	63	3	3	0	0	0	Compliant

- **DMLSS-W - Defense Medical Logistics Standard Support – Wholesale**:
  - The DMLSS-W Program Management Office (PMO) and the Audit Readiness Program Management Team (PMT) determined the four open NOFs to be "Non-Critical" due to no Financial Statement impact.
  - All four NOFs are on-schedule to be completed by September 30, 2017.
  - Resulting from recent system changes, upgrades, and releases, no FFMIA testing requirements were identified as applicable for 2016 A-123 testing.
- **DSS - Distribution Standard System**: Completed relevant 2016 A-123 testing with no deficiencies identified.
- **EAGLE - Employee Activity Guide for Labor Entry**: Completed relevant 2016 A-123 testing with no deficiencies identified.
- **EBS - Enterprise Business System**: The PMT and J88 have determined the remaining three open NOFs as "Non-Critical "due to minimal Financial Statement impact.
- **FMD - Fuels Manager Defense**:
  - The FMD PMO and the PMT determined the remaining open NOF as "Non-Critical" due to no Financial Statement impact.
  - Resulting from recent system changes, upgrades, and releases, no FFMIA testing requirements were identified as applicable for 2016 A-123 testing.
- **STORES - Subsistence Total Ordering & Receipting Electronic System**: Resulting from recent system changes, upgrades, and releases, no FFMIA testing requirements were identified as applicable for 2016 A-123 testing.
- **DAI - Defense Agencies Initiative**: Completed relevant 2016 A-123 testing with no Critical NOFs from a Financial Statement Impact.
- **iRAPT - Invoice, Receipt, Acceptance, and Property Transfer**: Resulting from recent system changes, upgrades, and releases, no FFMIA testing requirements were identified as applicable for 2016 A-123 testing.

LEGAL COMPLIANCE

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

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

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

JUN 07 2016

MEMORANDUM FOR THE DIRECTOR, DEFENSE LOGISTICS AGENCY

THROUGH: DIRECTOR, STRATEGIC PLANS & POLICY, RISK AND CONTROLS ASSESSMENT BRANCH

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2016

As the Agency's Chief Financial Officer, I recognize that DLA Finance (J8) is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A provides specific information on how DLA Finance conducted the assessment of risk management and internal controls, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, and GAO Standards of Internal Controls and provides a summary of significant accomplishments and actions taken to improve DLA Finance risk management and internal controls during the past year.

The broad objectives of any risk management and internal control framework and system of internal controls are to provide reasonable assurance of:

- Operations: Effectiveness and efficiency of operations;
- Reporting: Reliability of reporting for internal and external use; and
- Compliance: Compliance with applicable laws and regulations

I am able to provide a modified statement of assurance, considering the exceptions explicitly noted that internal controls of DLA J8 meet the objectives of FMFIA. These weaknesses were found in the internal controls over financial reporting and internal controls over financial systems.

Tab A-1 provides details that support the effective design, implementation and operation of standards of risk management and internal control principles.

Tab A-2 provides significant accomplishments achieved during FY 2016.

Tab B-1 provides detail of Operational Material Weaknesses.

Tab B-2 provides detail of Operational Corrective Action Plans and Milestones.

Tab C-1 provides detail of Financial Reporting/Financial System Material Weaknesses.

Tab C-2 provides detail of Financial Reporting/Financial System Corrective Action Plans and Milestones.

My point of contact for this action is our Chief of Financial Compliance Integration, Mr. Mike Witsman, DSN: 427-3925, email: michael.witsman@dla.mil.

J. Anthony Poleo
Director, DLA Finance
Chief Financial Officer

Attachments:
Tab A-1 (Description of standards of risk management and internal control principles)
Tab A-2 (Significant Accomplishments)
Tab B-1 (Operational Material Weaknesses)
Tab B-2 (Internal Controls Over Non-Financial Operations (ICONO) CAPS)
Tab C-1 (Financial Reporting/Financial System Material Weaknesses)
Tab C-2 (Financial Reporting Critical Corrective Action Plans)
Tab C-3 (Internal Controls Over Financial Reporting (ICOFR) Control Activities)

MANAGEMENT INITIATIVES

AUDIT READINESS

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

The OUSD (Comptroller) Financial Improvement and Audit Readiness (FIAR) Directorate manages the DoD FIAR Plan and develops and issues the FIAR Guidance that defines DoD's goals, priorities, strategy, and methodology to achieve audit readiness. The guidance describes the roles and responsibilities of reporting entities and service providers and the processes they should follow to achieve audit readiness. This guidance is updated periodically to remain current with DoD's priorities and align with all applicable Federal and Departmental financial management requirements. On September 30, 2015, DLA asserted that our Agency was audit ready for all fund accounts.

DLA established a rigorous enterprise audit readiness strategy, program infrastructure, and governance structure that were managed centrally with full Agency support and clear accountabilities at the senior level. The governance included a Stewardship Committee, centralized PMT, Stewardship Working Group, Business Cycle Teams led by senior executives at DLA Headquarters known as Enterprise Business Cycle Owners (EBCOs), Field Command Teams, and PMT.

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

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

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

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

J6 focused on IT General Controls affecting auditability for DLA-owned and DLA-managed systems whereby DLA performs the role of a service provider to its customers. Certain system components are operated by DLA on behalf of other entities and DLA has demonstrated through service provider focused audits that it has adequately designed controls that operate effectively.

REORGANIZATION OF THE FINANCE OFFICE

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

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

LIMITATIONS TO THE FINANCIAL STATEMENTS

The principal financial statements were prepared to report the financial position and results of operations of DLA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements were prepared from DLA's books and records in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

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

DLA and the Defense Finance and Accounting Service (DFAS) prepared the FY 2016 DLA financial statements from available automated finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes. Due to system deficiencies, there are limitations in collecting the data needed to prepare financial statements that comply with Federal standards. To prepare the financial statements, DFAS made numerous adjustments during the compilation process in an attempt to overcome these deficiencies.

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

IMPROPER PAYMENTS ELIMINATIONS AND RECOVERY ACT (IPERA)

Department of Defense Financial Management Regulation (DoD FMR) 7000-14-R, Volume 4, Chapter 14, defines improper payments as "any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements." In accordance with the Improper Payments Information Act (IPIA) of 2002 (Public Law (P.L.) 107-300); Improper Payments Elimination and Recovery Act (IPERA) of 2010 (P.L. 111-204); Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA) (P.L.112-248); Executive Order 13520, Reducing Improper Payments, issued November 20, 2009; and Appendix C of Office of Management and Budget (OMB) Circular No. A-123, Defense components are required to report the status of improper payments and recovery of these improper payments to the President and Congress.

In successive reports, the DoD Office of Inspector General (DoDIG) determined DoD was non-compliant with IPERA (Ref: DODIG-2015-125, "DoD Cardholders Used Their Government Travel Cards for Personal Use at Casinos and Adult Entertainment Establishments," May 19, 2015, and DODIG-2016-060, "DoD Actions Were Not Adequate to Reduce Improper Travel Payments"). These determinations were made because the Department failed to meet its travel pay error rate reduction target. In FY 2015, DoD exceeded the target rate of 3.25 percent by 4.75 percent. At the end of the year the DoD error rate was at 8 percent.

On October 7, 2016, DoD administered a remediation plan Department-wide to ensure placement of front-end internal controls to minimize the potential for travel pay improper payments and to take prudent actions to detect and correct improper payments or recover them if they occur. In compliance, DLA's Chief Financial Officer responded by submitting its Travel Pay Remediation Plan to preclude release of improper payments to travelers. The plan mandates the following:

- The delivery of travel training modules through DLA's centralized Learning Management System. Automated courseware and delivery of annual training to include Programs & Policies - U.S. Government Rental Car Program will be an added annual requirement for all Approving Officials, and highly recommended for travelers.

    - In FY 2016, DLA's Post-Payment Review process uncovered a high percentage of claims approved for non-reimbursable expenses; sixty percent directly linked to optional rental car services such as Contiguous United States (CONUS) supplemental insurance and pre-paid fuel.

- Monthly, select a 15 percent random sampling of Defense Travel System vouchers paid >$2500 to ensure early detection of improper claims.

- Enhance DLA's Travel Sustainment and compliance process by remediating erroneous claims and amending vouchers ahead of the Defense Finance and Accounting Service's Post Payment Review (PPR). DLA assists with the PPR review by identifying errors that can be corrected before being identified through audit processes, and ensuring travel claims do not exceed reasonable or actual expenses. This, minimizes inaccurate, unauthorized, overstated, inflated, or duplicate travel claims.

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER
OCTOBER 2016

The DLA Finance role in enabling the Agency's mission is to provide the organization with credible financial management services and support. Previous Secretary of Defense Panetta challenged DoD leaders to become champions for Financial Improvement and Audit Readiness. As an Agency, we took this challenge seriously and asserted our readiness for financial audit two years ahead of the 2017 deadline. Many thanks to our workforce for their dedication to strengthening our financial management and working together to further our audit sustainment goal.

Even though we have asserted, we continue to work to improve our audit readiness by mitigating critical risks and closing key Corrective Action Plans.

Sustaining assertion is a top priority. As we enter into the new fiscal year, we will continue to meet our mission commitments as we undergo a full financial statement audit by our independent Public Accountant.

J. ANTHONY POLEO
Director, DLA Finance
Chief Financial Officer

Defense Logistics Agency
Defense Working Capital Fund
Financial Statements and Footnotes

HIGHLIGHTS OF DLA'S FINANCIAL STATEMENTS FOR FY 2016

DLA prepares the four principal financial statements for its Defense Working Capital Fund:

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

The analysis of each statement describes the Defense Working Capital Fund results.

In accordance with DoD Reporting Requirements, DLA analyzed variances for Total Assets and Total Liabilities on the Balance Sheet with changes greater than 10% and $2.0 million change or changes greater than 2% of total assets. The analysis also includes changes greater than 10% and $2.0 million change of Net Costs of Operations on the Statement of Net Costs and Total Budgetary Resources and Net Outlays on the Statement of Budgetary Resources. Variances that meet these threshold requirements are explained within 30% percentile in either direction (over and under).

BALANCE SHEET

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

DEFENSE WORKING CAPITAL FUND

Assets

DLA WCF's Total Assets increased $1.3 billion (5%) primarily due to increases in Inventory and Related Property ($2.2 billion) and total Accounts Receivable ($982.0 million); offset by a decrease in Fund Balance with Treasury (FBWT) ($1.8 billion).

The increase in Inventory and Related Property was mainly driven by the deemed cost adjustment performed by DLA in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", which allows DLA to apply an alternative valuation method in establishing beginning balances for inventory.

Total Accounts Receivable increased primarily due to: sales increases in DLA Troop Support for Pharmaceutical Prime Vendor business, implementation of a re-designed elimination, process to improve data used for trading partner eliminations, and settlements with foreign nations related to Replacement in Kind and Foreign Exchange Agreements for DLA Energy.

FBWT decreased primarily attribute to a reprogramming of funds to the Military Services and Other Defense Agencies mandated by Public Law 114-113, "Consolidated Appropriations Act".

Liabilities

DLA's WCF Total Liabilities increased $1.0 billion (21%) due to an increase in Total Accounts Payable ($1.3 billion); offset by a decrease in total Environmental and Disposal Liabilities ($300.2 million).

Total Accounts Payable increased primarily due to DLA's implementation of a re-designed elimination process that identified a higher balance of Accounts Payable for trading partner elimination and settlements of business with foreign nations.

Environmental and Disposal Liabilities decreased due to a decrease of $445.7 million in estimated asbestos clean-up costs ($369.2 million) and Non-Base Realignment and Closure (Non-BRAC) Corrective Action costs ($76.5 million). The decrease was offset by an increase in Non-BRAC Closure costs ($145.5 million).

STATEMENT OF NET COST (SNC)

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

DEFENSE WORKING CAPITAL FUND

DLA's WCF Net Cost of Operations increased $724.5 million (31%) due to an increase of $3.2 billion in Gross Costs less a $3.9 billion increase in Earned Revenue.

Gross costs increased $3.2 billion primarily due to an increase in accounting losses ($11.7 billion) related to inventory deemed cost adjustment in accordance with SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", for DLA Aviation and DLA Troop Support. The increase is offset by a decrease of cost of goods sold ($8.6 billion) for DLA Energy due to the standard fuel price decreased from $91.51 per barrel (BBL) in 4th Quarter, FY 2015 to $65.60/BBL in 4th Quarter, FY 2016.

Total Earned Revenue increased $3.9 billion primarily due to an increase of accounting gains in Construction & Equipment and Industrial Hardware primarily attributed to the inventory deemed cost adjustment.

STATEMENT OF CHANGES IN NET POSITION (SCNP)

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

DEFENSE WORKING CAPITAL FUND

SCNP Analysis is not required for the WCF based on the guidelines above.

STATEMENT OF BUDGETARY RESOURCES (SBR)

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

DEFENSE WORKING CAPITAL FUND

DLA's Total Net Outlays (discretionary and mandatory) decreased $2.0 billion (65%) due to a decrease in Gross outlays ($2.2 billion) offset by a decrease of collections ($4.2 billion).

The change in Gross outlay (discretionary and mandatory) primarily attributed to a $25.91 per barrel (BBL) decrease in DLA Energy's standard fuel purchase price, from $91.51/BBL in 4th Quarter, FY 2016 to $65.60/BBL in 4th Quarter, FY 2016.

Actual offsetting collections (discretionary and mandatory) decreased $45.05/BBL in DLA Energy's Weighted Average Standard Price from $144.81/BBL in 4th Quarter, FY 2015 to $99.76/BBL in 4th Quarter, FY 2016.

Department of Defense - Unaudited
Defense Logistic Agency - Working Capital Fund
CONSOLIDATED BALANCE SHEET
For the periods ended September 30, 2016 and 2015
Amounts in Thousands

	2016 Consolidated		2015 Consolidated	
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,465,848	$	3,296,583
Accounts Receivable (Note 5)		1,616,181		1,345,687
Other Assets (Note 6)		123,306		124,925
Total Intragovernmental Assets	$	3,205,335	$	4,767,195
Accounts Receivable,Net (Note 5)		2,019,198		1,307,664
Inventory and Related Property,Net (Note 9)		19,808,752		17,590,917
General Property, Plant and Equipment,Net (Note 10)		3,043,331		3,055,654
Other Assets (Note 6)		36,886		44,125
TOTAL ASSETS	$	28,113,502	$	26,765,555
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)				
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	$	284,859	$	117,934
Other Liabilities (Note 15 & 16)		383,834		387,156
Total Intragovernmental Liabilities	$	668,693	$	505,090
Accounts Payable (Note 12)	$	3,208,439	$	2,085,234
Military Retirement and Other Federal Employment Benefits (Note 17)		221,672		226,082
Environmental and Disposal Liabilities (Note 14)		1,458,681		1,758,848
Other Liabilities (Note 15 & 16)		272,736		251,224
TOTAL LIABILITIES	$	5,830,221	$	4,826,478
COMMITMENTS AND CONTINGENCIES (Note 16)				
NET POSITION				
Cumulative Results of Operations - Other Funds		22,283,281		21,939,077
TOTAL NET POSITION	$	22,283,281	$	21,939,077
TOTAL LIABILITIES AND NET POSITION	$	28,113,502	$	26,765,555

The accompany notes are an integral part of the statements.

Department of Defense - Unaudited

Defense Logistic Agency - Working Capital Fund

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
Program Costs		
Gross Costs		
Operations , Readiness & Support	$ 51,869,524	$ 48,710,993
(Less: Earned Revenue)	(54,919,457)	(51,036,388)
Net Cost before Losses/(Gains) from Actuarial Assumption Change for Military Retirement Benefits	(3,049,933)	(2,325,395)
Net Program Costs Including Assumption Changes	(3,049,933)	(2,325,395)
Net Cost of Operations	$ (3,049,933)	$ (2,325,395)

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited

Defense Logistic Agency - Working Capital Fund

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,939,077	$ 19,092,812
Beginning Balances, as Adjusted	21,939,077	19,092,812
Budgetary Financing Sources:		
Appropriations Used	131,434	130,643
Nonexchange Revenue	(5,511)	12,658
Transfers-In/Out without Reimbursement	(3,038,025)	(1,205,663)
Other Financing Sources:		
Transfers-In/Out without Reimbursement (+/-)	48,444	1,446,811
Imputed Financing from Costs Absorbed by Others	152,556	149,230
Other (+/-)	5,373	(12,809)
Total Financing Sources	$ (2,705,729)	$ 520,870
Net Cost of Operations (+/-)	(3,049,933)	(2,325,395)
Net Change	344,204	2,846,265
Cumulative Results of Operations	22,283,281	21,939,077
UNEXPENDED APPROPRIATIONS COLLECTIONS		
Budgetary Financing Sources:		
Appropriations Transferred-In/Out	131,434	130,643
Appropriations Used	(131,434)	(130,643)
Net Position	$ 22,283,281	$ 21,939,077

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited

Defense Logistic Agency - Working Capital Fund

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Combined	2015 Combined
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 133,939	$ 122,742
Unobligated Balance Brought Forward, October 1, as Adjusted,	133,939	122,742
Recoveries of Unpaid Prior Year Obligations	7,718,457	9,848,892
Other Changes in Unobligated Balance (+/-)	(9,699,346)	(11,016,524)
Unobligated Balance from Prior Year Budget Authority, Net	(1,846,950)	(1,044,890)
Appropriations (discretionary and mandatory)	(905,566)	130,643
Contract Authority (discretionary and mandatory)	39,503,253	39,846,123
Spending Authority from Offsetting Collections (discretionary and mandatory)	3,360,745	1,491,468
Total Budgetary Resources	$ 40,111,482	$ 40,423,344
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 39,960,226	$ 40,289,405
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	151,256	133,939
Unexpired Unobligated Balance, End of Year	151,256	133,939
Unobligated Balance, End of Year (Total)	151,256	133,939
Total Budgetary Resources	$ 40,111,482	$ 40,423,344
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 18,041,196	$ 22,552,928
New Obligations and Upward Adjustments	39,960,226	40,289,405
Outlays (Gross) (-)	(32,780,202)	(34,952,245)
Recoveries of Prior Year Unpaid Obligations (-)	(7,718,457)	(9,848,892)
Unpaid Obligations, End of Year	17,502,763	18,041,196
Uncollected payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(8,379,851)	(9,373,994)
Change in Uncollected Payments, Federal sources (+/-)	(1,383,769)	994,143
Uncollected Payments, Federal Sources, End of year (-)	(9,763,620)	(8,379,851)
Memorandum Entries:		
Obligated Balance, Start of year (+/-)	9,661,345	13,178,934
Obligated Balance, End of year (+/-)	$ 7,739,143	$ 9,661,345
Budget Authority and Outlays, Net:		
Budget Authority, Gross (discretionary and mandatory)	$ 41,958,432	$ 41,468,234
Actual Offsetting Collections (discretionary and mandatory) (-)	(33,856,058)	(38,021,432)
Change in Uncollected Customer Payments from Federal (+/-) Sources (discretionary and mandatory)	(1,383,769)	994,143
Budget Authority, Net (total) (discretionary and mandatory)	6,718,605	4,440,945
Outlays, Gross (discretionary and mandatory)	32,780,202	34,952,245
Actual Offsetting Collections (discretionary and mandatory) (-)	(33,856,058)	(38,021,432)
Outlays, Net (Total) (discretionary and mandatory)	(1,075,856)	(3,069,187)
Agency Outlays, Net (discretionary and mandatory)	$ (1,075,856)	$ (3,069,187)

The accompanying notes are an integral part of the statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. BASIS OF PRESENTATION

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

Information relative to classified assets, programs, and operations is 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 (e.g. Distribution Standard System and Remedial Action Cost Engineering and Requirements). 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 material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Accounts Receivable; (4) Inventory; (5) General Property, Plant, and Equipment (PP&E); (6) Accounts Payable; (7) Intragovernmental Eliminations; and (8) Accounting Entries.

1.B. MISSION OF THE REPORTING ENTITY

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

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

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

1.C. APPROPRIATIONS AND FUNDS

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

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. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintain the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The DLA WCF is provided two forms of budgetary authority: contract authority and anticipated reimbursement authority. DLA Supply Chain Management and DLA Energy are 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.

1.D. BASIS OF ACCOUNTING

The DLA financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DLA's sub-entities. 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 continuing 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 able to collect and report financial information as required by USGAAP, there will be instances when the financial data will be derived from nonfinancial feeder systems.

1.E. REVENUES AND OTHER FINANCING SOURCES

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

1.F. RECOGNITION OF EXPENSES

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

1.G. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. 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's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

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

1.H. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

Each year, DLA sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976 (AECA). 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 also made under the AECA of 1976/FMS program, via direct sales and also under the Fuel Exchange Agreement (FEA) program. The FEAs, also known as replacement in kind agreements, are international acquisition and cross-servicing agreements established between DLA and the military departments of other nations. The DLA utilizes FEAs to account for fuel provided by foreign militaries to the U.S. Military as well as fuel provided by DLA to other nations. Settlement can be made either in fuel or cash. For cash settlements, the agreements typically call for reciprocal pricing (i.e. prices cannot be more than the participants charge their own military). The DLA charges DoD standard prices to foreign militaries.

1.I. FUNDS WITH THE U.S. TREASURY

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

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

1.J. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA WCF.

1.K. ACCOUNTS RECEIVABLE

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

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 misinterpreted, due to the delay in processing the FEA settlement entry. 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.

1.L. DIRECT LOANS AND LOAN GUARANTEES

This is not applicable to DLA WCF.

1.M. INVENTORIES AND RELATED PROPERTY

For 4th Quarter, FY 2016, DLA valued its inventory using deemed cost based on SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance".

The DLA values all of its resale inventory using the moving average cost method. The DLA manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in DLA's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The DLA holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale".

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

1.N. INVESTMENTS IN U.S. TREASURY SECURITIES

This is not applicable to DLA WCF.

1.O. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E)

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

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

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

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

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires DLA 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.

1.P. ADVANCES AND PREPAYMENTS

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

1.Q. LEASE

This is not applicable to DLA WCF.

1.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 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 (FARs), 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 FAR Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

1.S. CONTINGENCIES AND OTHER LIABILITIES

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

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

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

1.T. ACCRUED LEAVE

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

1.U. NET POSITION

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

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

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

1.V. TREATIES FOR USE OF FOREIGN BASES

This is not applicable to DLA WCF.

1.W. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the DLA accounts payable and receivable trial balances prior to validating underlying transactions.

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

1.X. FIDUCIARY ACTIVITIES

This is not applicable to DLA WCF.

1.Y. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

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

1.Z. SIGNIFICANT EVENTS

This is not applicable to DLA WCF.

NOTE 2. NONENTITY ASSETS

As of September 30	2016	2015
(Amounts in thousands)		
Nonfederal Assets		
Accounts Receivable	$ 336,329	$ 343,711
Total Nonfederal Assets	$ 336,329	$ 343,711
Total Nonentity Assets	$ 336,329	$ 343,711
Total Entity Assets	$ 27,777,173	$ 26,421,844
Total Assets	$ 28,113,502	$ 26,765,555

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

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2016	2015
(Amounts in thousands)		
Fund Balances		
Revolving Funds	$ 1,465,848	$ 3,296,583
Total Fund Balances	$ 1,465,848	$ 3,296,583
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ 1,465,848	$ 3,296,583
Fund Balance per DLA	1,465,848	3,296,583
Reconciling Amount	$ -	$ -

STATUS OF FUND BALANCE WITH TREASURY

As of September 30	2016		2015	
(Amounts in thousands)				
Unobligated Balance				
Available	$	151,256	$	133,939
Obligated Balance not yet Disbursed	$	17,502,763	$	18,041,196
NonFBWT Budgetary Accounts	$	(16,188,171)	$	(14,878,552)
Total	$	1,465,848	$	3,296,583

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 and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations.

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

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

NOTE 4. INVESTMENTS AND RELATED INTEREST

This is not applicable to DLA WCF.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,616,181	N/A	$ 1,616,181
Nonfederal Receivables (From the Public)	2,056,482	$ (37,284)	2,019,198
Total Accounts Receivables	$ 3,672,663	$ (37,284)	$ 3,635,379

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

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

NOTE 6. OTHER ASSETS

As of September 30	2016	2015
(Amounts in thousands)		
Intragovernmental Other Assets		
Other Assets	$ 123,306	$ 124,925
Total Intragovernmental Other Assets	$ 123,306	$ 124,925
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$ 36,843	$ 44,082
Advances and Prepayments	43	43
Total Nonfederal Other Assets	$ 36,886	$ 44,125
Total Other Assets	$ 160,192	$ 169,050

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, therefore the full inventory remains on hand with DoE. In 2016, DOE determined that the DOD oil inventory did not reconcile with the U.S. Treasury. A downward adjustment to accurately reflect the amount of crude oil capitalized was required in the amount of ($1,618,911.45), applicable to non-capitalized expenses. The DOD oil is valued at $123,306,088.55. 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 the DLA protecting 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 DLA. The DLA does not have the right to take the work, except as provided in contract clauses related to termination or acceptance. The DLA is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments includes $31.6 million in contract financing payments and an additional $5.2 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. Refer to Note 15, Other Liabilities, for further information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA WCF.

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

This is not applicable to DLA WCF.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30	2016	2015
(Amounts in thousands)		
Inventory, Net	$ 19,808,752	$ 17,590,917
Total	$ 19,808,752	$ 17,590,917

Restrictions

The DLA Supply Chain Management (SCM) inventory, net total, has restrictions of $119.2 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, Energy Management, and Document Services they are reported in the Enterprise Business System (EBS).

Inventory for SCM consists of Troop and Weapon Systems Support supply chains: DLA Troop Support inventory includes Clothing and Textiles; Construction and Equipment; Industrial Hardware; Medical; and Subsistence. Weapon 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.

DLA reported $19.4 billion, categorized as Inventory Held for Current Sale, Inventory Held in Reserve for Future Sale, and Inventory Held for Repair using deemed cost method; $441.0 million categorized as Excess, Obsolete, and Unserviceable inventory at net realizable value.

Inventory Balances by Category	Totals
Inventory Held for Current Sale	$19,016,989,334
Inventory Held in Reserve (Future Sale)	$ 274,917,135
Excess, Obsolete, and Unserviceable Inventory	$ 440,986,285
Inventory Held for Repair	$ 77,407,406
Allowance: Inventory Held for Repair	$ (1,548,148)
Total Inventory:	$19,808,752,012

For 4th Quarter, FY 2016, DLA performed a significant deemed cost adjustment to its inventory based on the SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance" or Deemed Costs in support of audit. In accordance with SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile

Materials guidance", DLA used Standard Price (selling price) and Latest Acquisition Cost methods to value its inventory. The implementation of SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", allowed DLA to establish opening balances, which is considered consistent with GAAP. No distinction or breakout of the deemed cost amount in the opening balances is required. Additionally, DLA applied SFFAS No. 3, "Accounting for Inventory and Related Property" and SSFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles" as part of the inventory valuation.

The SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", uses Deemed Cost as an acceptable valuation method for establishing opening balances for inventory in the reporting period in which the reporting entity makes an unreserved assertion. DLA does not make an unreserved assertion for its inventory balances.

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	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. These include the following:

(1) Meals Ready to Eat (MRE) which has a congressionally mandated level of 5.1 million cases.

(2) Petroleum inventories which 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 collaborative wartime stockage objective is 34.5 million barrels (mbbls). DLA Energy calculates peacetime bulk petroleum inventory requirements in accordance with guidelines provided by Office of the Under Secretary of Defense (Comptroller), and positions it by prior to placing war reserve inventories. The peacetime objective is 21.1 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	2016			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
Inventory Categories				
Available and Purchased for Resale	$ 19,291,907	$ -	$ 19,291,907	LAC, SP
Held for Repair	77,407	(1,548)	75,859	LAC, SP
Excess, Obsolete, and Unserviceable	440,986	-	440,986	NRV
Total	$ 19,810,300	$ (1,548)	$ 19,808,752	

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

Legend for Valuation Methods:		
LAC = Latest Acquisition Cost	SP = Standard Price	NRV = Net Realizable Value
MAC = Moving Average Cost		

NOTE 10. GENERAL PP&E, NET

As of September 30	2016				
	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	$ 6,014,890	$ (3,874,715)	$ 2,140,175
Software	S/L	2-5 or 10	950,849	(656,204)	294,645
General Equipment	S/L	Various	636,982	(466,657)	170,325
Assets Under Capital Lease	S/L	Lease Term	-	-	-
Construction - in - Progress	N/A	N/A	438,186	N/A	438,186
Total General PP&E			$ 8,040,907	$ (4,997,576)	$ 3,043,331

As of September 30	2015				
	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	$ 4,509,234	$ (2,422,885)	$ 2,086,349
Software	S/L	2-5 or 10	1,406,362	(1,045,246)	361,116
General Equipment	S/L	Various	678,540	(470,666)	207,874
Assets Under Capital Lease	S/L	Lease Term	-	-	-
Construction - in - Progress	N/A	N/A	400,315	N/A	400,315
Total General PP&E			$ 6,994,451	$ (3,938,797)	$ 3,055,654

Legend for Depeciation / Amortization Methods:

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

During FY 2016, in accordance with SFFAS No. 35, "Estimating the Historical Cost of General Property, Plant, and Equipment", DLA used Deflated Property Replacement Value method to value fully depreciated Real Property (Buildings, Structure, and Facilities). The implementation of SFFAS No. 35, resulted in a $1.5 billion increase in the assets value and accumulated depreciation for Building, Structure and Facilities.

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, final governing standards and other binding agreements.

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

Refer to the Table below for additional information.

As of September 30	2016					
	Depreciation / Amortization Method	**Acquisition Date**	**Life Years**	**Acquisition Value**	**Accumulated /Depreciation/ Amortization**	**Net Book Value**
(Amounts in thousands)						
Assets						
Bellwood Club	S/L	July 1, 1840	40	$ 482,200	$ 482,200	$ -
Capital Improvements						
Construct Handicap Ramp	S/L	May 23,1995	20	212,818	212,818	-
Net Bellwood Club				$ 695,018	$ 695,018	$ -
Gregory Family Cemetery	N/A	July 1, 1993		$ 28,000	$ -	$ 28,000
African American Cemetery	N/A	July 1, 2000		28,772	-	28,772
Native American Monument	N/A	July 1, 2001		22,274	-	22,274
Net Heritage Assets				$ 774,064	$ 695,018	$ 79,046

Current Annual Depreciation on Bellwood Club Capital Improvements

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

Legend for Depeciation / Amortization Methods:

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

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 23,814	$ 20,593
Total Intragovernmental Liabilities	$ 23,814	$ 20,593
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	$ 221,672	$ 226,082
Environmental and Disposal Liabilities	1,430,536	1,724,420
Other Liabilities	33,749	33,531
Total Nonfederal Liabilities	$ 1,685,957	$ 1,984,033
Total Liabilities Not Covered by Budgetary Resources	$ 1,709,771	$ 2,004,626
Total Liabilities Covered by Budgetary Resources	$ 4,120,450	$ 2,821,852
Total Liabilities	$ 5,830,221	$ 4,826,478

The DLA Working Capital Fund current year liabilities not covered by budgetary resources are primarily comprised of actuarial Federal Employees Compensation Act (FECA) benefits and Environmental Liabilities. The unfunded FECA liability consists of liabilities for cases being paid by the Department of Labor (DOL) for employees of DLA and actuarial cost projections. Unfunded environmental liabilities are estimates related to future events.

Composition of Other Lines

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

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

Nonfederal Liabilities: Other generally consists of contingent legal liabilities that comprise of 6 cases within DLA Distribution (2), DLA Troop Support (1), DLA Aviation (1), DLA Energy (1) and DLA Headquarters (1) pertaining to cases with the Armed Services Board of Contract Appeals, Equal Employment Opportunity Commission and Merit System Protection Board.

Military Retirement and Other Federal Employment Benefits:

Military Retirement and Other Federal Employment Benefits consist 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 $221.7 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	2016		
	Accounts Payable	Interest, Penalities, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 284,859	N/A	$ 284,859
Nonfederal Payables (to the Public)	3,208,439	$ -	3,208,439
Total	$ 3,493,298	$ -	$ 3,493,298

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

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA systems do not track all intragovernmental accounts payable transactions by customer. Buyer-side accounts payable is adjusted to agree with interagency seller-side accounts receivable by: (1) reclassifying amounts between federal and non-federal accounts payable, (2) accruing additional accounts payable, and (3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

This is not applicable to DLA WCF.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2016	2015
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Other Accrued Environmental Liabilities - Non BRAC		
Environmental Corrective Action	$ 194,487	$ 271,017
Environmental Closure Requirements	1,162,141	1,016,625
Asbestos	102,053	471,206
Total Environmental Liabilities	$ 1,458,681	$ 1,758,848

The DLA's Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the Defense Working Capital Fund environmental restoration programs, and (2) anticipated future costs necessary to complete the environmental restoration requirements at DLA's Energy and Non-Energy environmental sites. In FY 2016, DLA utilized Version 11.3 of the Remedial Action Cost Engineering and Requirements (RACER) software to generate the fiscal year (FY) 2016 Cost to Complete (CTC) estimates of anticipated future costs. Cost estimates related to DLA Energy were generated for 7,599 sites: 4,573 sites associated with closure costs, 67 sites associated with corrective action costs and 2,959 sites associated with asbestos costs. Cost estimates related to Non-Energy were generated for 2,452 sites: 104 sites associated with closure costs, one site associated with corrective action costs and 2,344 sites associated with asbestos costs.

Applicable Laws and Regulations for Cleanup Requirements

The DLA is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other prior activities, which may have created a public health or environmental risk. DLA is required to comply with the following laws and regulations where applicable: The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); the Superfund Amendments and Reauthorization Act (SARA); the Resource Conservation and Recovery Act (RCRA); the Clean Water Act; and other applicable Federal, State, interstate, and local laws and regulations. Required cleanup may at times extend beyond Installation boundaries onto privately owned property, and onto sites where DLA is named as a potentially responsible party by a regulatory agency. Additionally, DLA is required to report EL associated with asbestos cleanup in accordance with Federal Accounting Standards Advisory Board (FASAB) Technical Release 10: Implementation Guidance on Asbestos Clean-up Costs Associated with Facilities and Installed Equipment, and FASAB Federal Financial Accounting and Auditing Technical Release No. 2 Determining Probable and Reasonable Estimable for Environmental Liabilities in the Federal Government.

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

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

The primary change in site level estimate from the previous CTC occurred in the FY 2017 CTC and can be attributed to DLA's revised methodology for estimating DLA's Asbestos EL via a DLA-specific asbestos abatement cost factor and a revised Enterprise Business System (EBS) building and structure population report. Additionally, Non-BRAC Corrective Actions costs decreased due to a reduction in Program Management costs, resulting from DLA's revised post- Future Year Defense Program (FYDP) methodology for calculating Program Management costs, which was implemented in accordance with OSD guidance; "Strategy for Environmental and Disposal Liability Audit Readiness (September 30, 2015)". DLA's Non-BRAC Closure costs increased due to FY 2016 EBS data including the addition of nine pipelines and updates to the year placed in service dates, as well as annual software updates to RACER 11.3 unit costs and location modifier. Year-to-year fluctuations in DLA's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The latest version of RACER was used to prepare the estimates.

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

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

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

In FY 2016, DLA developed and implemented the Roll Forward process bridging the timing gap between the completion of the annual CTC estimates and September 30 to determine if any significant changes to environmental liabilities have occurred during that timeframe. Based on the results of the roll forward process, it was determined that there were no significant changes to environmental liabilities between the completion of the annual CTC process and September 30. This process is in accordance with OSD memorandum for Strategy for Environmental & Disposal Liabilities Audit Readiness (September 30, 2015). While there were no significant changes to environmental liabilities during that time, there are potentially material requirements identified at the Red Hill Bulk Facility, Tank Release #5 located at Joint Base Pearl Harbor Hawaii (JBPHH). Due to lack of sufficient information and documentation at this time, the requirements will be re-evaluated during the next annual CTC process.

Additionally, in FY 2016, DLA developed and implemented an EL Site Identification (ID) process that reviews the Environmental Event Repository and evaluates each event for Out Year EL potentiality for use in the annual CTC and EL financial reporting. During the FY 2016 Site ID Process, the sites identified in the table below were identified as Potential Out Year ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. These sites will be re-evaluated during the next Site ID process to determine if any changes have taken place and sufficient information/data is available to create an estimate of future costs that would be included in the Defense Working Capital Fund EL.

DLA Defense Working Capital Fund Potential EL Sites:

INSTALLATION	SITE NAME	CATEGORY	COMMENTS
Edwards AFB	Kinder Morgan Pipeline Leak	Potential Out Year EL	Additional information is required to make a determination.
Fort Riley	Fort Riley Main Post Fuel Point	Potential Out Year EL	
MCAS Cherry Point NC	Tank Farm A Underground Vault Spill	Potential Out Year EL	
Ft. Huachuca	12/14/15 Gasket Leak	Potential Out Year EL	
Sky Harbor IAP	Hydrant Pits #6 and #8 Spill	Potential Out Year EL	
Whiteman	DFSP Newington	Potential Out Year EL	
Edwards AFB	Site 31	Potential Out Year EL	
NAVSTA, Mayport FL	NFD 12-99-10 West of PS #2	Potential Out Year EL	
NAVSTA, Mayport FL	NFD 7-Former Rail Yard	Potential Out Year EL	
NAVSTA, Mayport FL	NFD #15 – MILCON Area	Potential Out Year EL	
NAVSTA, Mayport FL	NFD 9 – PCW Tank Ditch Area	Potential Out Year EL	
NAVSTA, Mayport FL	NFD #16 –Southern DFM Area	Potential Out Year EL	
Mcentire Joint National Guard Base	Product Recovery Tank	Potential Out Year EL	
NAS Pensacola	Sherman Field Truck Stand 1880	Potential Out Year EL	
Nellis	JP-8 Pipeline Leaks Facility 198	Potential Out Year EL	
Shaw Air Force Base	Building 1200	Potential Out Year EL	
Shaw Air Force Base	Building 1600	Potential Out Year EL	
Shaw Air Force Base	Building 326	Potential Out Year EL	
Tinker AFB	JP-8 Pipeline Leak	Potential Out Year EL	
Tinker AFB	Romeo Ramp	Potential Out Year EL	
Travis AFB	Valve Pit 23	Potential Out Year EL	
Tyndall AFB	Site 6000	Potential Out Year EL	
Osan	DFSP Osan Fuel Stand and Bulk Storage Area	Potential Out Year EL	

RAF Lakenheath	June 2012 Spill	Potential Out Year EL	Additional information is required to make a determination.
RAF Lakenheath	POL 7 Pipeline Leak (November 2013)	Potential Out Year EL	
Camp Blanding	Avenue D Spill Remediation	Potential Out Year EL	
Ohio National Guard	Springfield ANG	Potential Out Year EL	
Seymour Johnson Air Force BS	KC-135 RAMP	Potential Out Year EL	
Seymour Johnson Air Force BS	Transient Ramp and Pump House	Potential Out Year EL	
Fort Stewart	Pumphouse 2	Potential Out Year EL	
Fort Stewart	Lightning Rd.	Potential Out Year EL	
US Army Kwajalein Atoll	DFSP Tank 11	Potential Out Year EL	
Tyndall AFB	Tyndall Tank 6046	Potential Out Year EL	
NAS Key West FL	ASD Fuel MOGAS Spill (at Facility 1694)	Potential Out Year EL	
MCAS Miramar	Area 13 and Area I	Potential Out Year EL	
March Air Reserve Base	DFSP Norwalk August 10th Spill	Potential Out Year EL	
Nellis	Bulk Fuel Farm Flightline Spill	Potential Out Year EL	
Whiteman	S. Hydrant Pumphouse 12/27/15 Spill	Potential Out Year EL	
Dyess Air Force Base	Feb 16 Transfer Line Leaks	Potential Out Year EL	
NAVSTA, Mayport FL	NFD 17	Potential Out Year EL	
NAVST, Mayport FL	NFD 2 and 3	Potential Out Year EL	
Eareckson	Pipeline Leak	Potential Out Year EL	
Ellsworth AFB	Fuel Area C	Potential Out Year EL	
Qatar	Blivet Spill via Forklift Transfer	Potential Out Year EL	
NAS Sigonella IT	FLC Sigonella Fillstand 401 Overflow	Potential Out Year EL	
Kadena Air Base	Oil/Water Separator Overfill	Potential Out Year EL	
Dyess Air Force Base	Pigging Operation Leak	Potential Out Year EL	
Camp Roberts	Tanks 1 and 2 Leak	Potential Out Year EL	
Charleston AFB	DBBV 1-inch PRV Spill	Potential Out Year EL	

Kuwait	R-11 Spill at CE Power Production Plant	Potential Out Year EL	Additional information is required to make a determination.
Kadena Air Base	Tank #3 Product Recovery Pump Spill	Potential Out Year EL	
MCB Camp S D Butler Okinawa JA	Tank Transfer Spill (Tanks 639, 661 and 662)	Potential Out Year EL	
Bagram Air Field (BAF), Afghanistan	TS-1 Bag Hole due to Mortar Attack	Potential Out Year EL	
DFSP Macon, GA	Fuel Additive Spill	Potential Out Year EL	
Kadena Air Base	Incident 811	Potential Out Year EL	
McLaughlin ANG Charleston, WV	PRT Dike Spill	Potential Out Year EL	
Key Field	Key Field UST Investigation	Potential Out Year EL	
Hill AFB	Hill AFB Valve R- 16 Spill	Potential Out Year EL	
Fairchild Air Force Base	Biodiesel Fuel Pump Spill	Potential Out Year EL	
Westover ARB	Hydrant Transfer Spill	Potential Out Year EL	
US Army Garrison Bavaria	Rose Barracks JP- 8 Spill	Potential Out Year EL	
MCAS Cherry Point NC	J Valve JP-5 Spill	Potential Out Year EL	
Charleston AFB	Train Loading Rack	Potential Out Year EL	
NAS Oceana VA	Transfer Pump #1 JP-5 Spill	Potential Out Year EL	
Wright- Patterson AFB	Tanks	Potential Out Year EL	
Camp Lemonnier Djibouti	Airfield Truck Spill	Potential Out Year EL	
Alaska National Guard	Alaska Indian Booster Station	Potential Out Year EL	
NAS Brunswick ME	Mitchell Field (former Casco Bay)	Potential Out Year EL	

Unrecognized Costs

DLA systematically recognizes Asbestos and Closure liabilities over the useful life of assets in accordance with DoD FMR Volume 4, Chapter 13, paragraph 130202. The total recognized Asbestos liability is stated above and the unrecognized Asbestos liability is $19.4 million. The total recognized Closure liability is stated above and the unrecognized Closure liability is $74.1 million. These liabilities are amortized based on the useful life of the assets as determined in DoD FMR Volume 4, Chapter 6, Section 060205.J. Table 6-1 DoD Recovery Periods for Depreciable General PP&E Assets.

Cleanup Costs Associated with Asbestos

The DLA's total environmental liability for asbestos related clean-up reported above is $102.0 million.

Cost estimates were generated for each asset by applying DLA's agency-specific asbestos abatement cost factor to the square footage of each asset, resulting in asset-specific asbestos-related estimates. DLA's agency-specific asbestos abatement cost factor was developed from asbestos surveys for the DLA host installations. For more detailed information on the development of the DLA agency-specific asbestos abatement cost factor, refer to the DLA Asbestos Cost-Factor Methodology and Calculation document dated August 1, 2016.

DLA calculated the future cost associated with asbestos EL utilizing the agency specific asbestos abatement cost factor and DLA's Enterprise Business Solution (EBS) real property records in compliance with the Department of Defense (DoD) Strategy for Environmental & Disposal Liabilities Audit Readiness (September 2015). Cost estimates related to DLA asbestos EL were generated by multiplying the gross square footage of 5,303 DLA buildings and structures by the agency-specific asbestos abatement cost factor of $1.23 per gross square foot (GSF). Additionally, applicable RACER location modifiers and Professional Labor Management (PLM) were factored on an asset by asset basis followed by systematic recognition of the liability over the remaining useful life of the asset in accordance with DoD FMR Volume 4 Chapter 13 (December 2011).

NOTE 15. OTHER LIABILITIES

As of September 30	2016		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
Judgment Fund Liabilities	$ 10	$ -	$ 10
FECA Reimbursement to the Department of Labor	7,800	19,558	27,358
Custodial Liabilities	336,330	-	336,330
Employer Contribution and Payroll Taxes Payable	20,136	-	20,136
Total Intragovernmental Other Liabilities	$ 364,276	$ 19,558	$ 383,834
Nonfederal			
Accrued Funded Payroll and Benefits	$ 229,434	$ -	$ 229,434
Advances from Others	3,113	-	3,113
Contract Holdbacks	-	165	165
Employer Contribution and Payroll Taxes Payable	1,074	-	1,074
Contingent Liabilities	33,749	5,201	38,950
Total Nonfederal Other Liabilities	$ 267,370	$ 5,366	$ 272,736
Total Other Liabilities	$ 631,646	$ 24,924	$ 656,570

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

Contingent liabilities include $38.7 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. DLA has recognized a contingent liability for estimated future payments considered conditional pending delivery and government acceptance.

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

NOTE 16. COMMITMENT 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 $9.75 million. This contingency is from 21 cases involving equal employment opportunity and contract disputes, in which the OGC is a party. Automated Workflow and Reporting System (AWARS) is used by OGC to project the outcome and value of open cases. The AWARS projects a minimum liability of approximately $9.75 million and a maximum liability of approximately $28.5 million. The minimum level increased in FY 2016 due to DLA Aviation case which dropped off. The maximum level decreased in FY 2016 due to DLA Aviation, Troop Support and Headquarters which dropped off.

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 and Disposal 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	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 221,672	$ -	$ 221,672
Total Other Benefits	$ 221,672	$ -	$ 221,672
Total Military Retirement and Other Federal Employment Benefits:	$ 221,672	$ -	$ 221,672

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

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2016 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

2.334% in Year 1
2.860% 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) 2016 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2016	2.20%	3.83%
2017	2.20%	3.82%
2018	2.20%	3.82% 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 the agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 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 2016 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 Calculations are Based (Retirement Systems)

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

NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

As of September 30	2016	2015
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 1,776,748	$ 1,961,522
Nonfederal Cost	50,092,776	46,749,471
Total Cost	$ 51,869,524	$ 48,710,993
Earned Revenue		
Intragovernmental Revenue	$ (28,591,435)	$ (35,717,275)
Nonfederal Revenue	(26,328,022)	(15,319,113)
Total Revenue	$ (54,919,457)	$ (51,036,388)
Total Net Cost	$ (3,049,933)	$ (2,325,395)
Consolidated		
Gross Cost		
Intragovernmental Cost	$ 1,776,748	$ 1,961,522
Nonfederal Cost	50,092,776	46,749,471
Total Cost	$ 51,869,524	$ 48,710,993
Earned Revenue		
Intragovernmental Revenue	$ (28,591,435)	$ (35,717,275)
Nonfederal Revenue	(26,328,022)	(15,319,113)
Total Revenue	$ (54,919,457)	$ (51,036,388)
Total Net Cost	$ (3,049,933)	$ (2,325,395)

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

The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

DLA reports intragovernmental and public costs and revenue. Intragovernmental cost represents 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.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2016	Dollars in Millions	
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Total
Appropriations, Statement of Budgetary Resources	$	(905.6)
Appropriations Received, Statement of Changes in Net Position		131.4
Total Reconciling Amount	$	1,037
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	1,037
Miscellaneous Items	$	-
Items Reported in Net Cost of Operations, Statement of Changes in Net Position		
Trust and Special Fund Receipts	$	-
Total Reconciling Items	$	1,037

The $1,037 million reconciling difference between Appropriations of the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position is due to a permanent rescission mandated by The Consolidated Appropriations Act, 2016 Public Law 114-113, Section 8127, 129 Statute 2380. As a result, DLA Energy transferred cash to the U.S. Treasury in February 2016 as mandated by the recession.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 13,720,989	$ 15,612,684
Available Borrowing and Contract Authority at the End of the Period	$ -	$ -

The DLA Working Capital Fund only had Reimbursable Obligations Incurred in Category B this reporting period. Category A and Category B did not contain Obligations Exempt from apportionment. The table below summarizes the apportionment categories. The summation of the categories is equivalent to Line 2190 on the Statement of Budgetary Resources.

(Amounts in thousands)	Category A	Category B	Total
Direct Obligations Incurred	$ -	$ 131,434	$ 131,434
Reimbursable Obligations Incurred	-	39,828,792	39,828,792
Obligations Exempt from Apportionment	-	-	-
Total	$ -	$ 39,960,226	$ 39,960,226

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

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30	2016	2015
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 39,960,226	$ 40,289,405
Less: Spending Authority from Offsetting Collections and Recoveries	(42,958,284)	(46,876,181)
Obligations Net of Offsetting Collections and Recoveries	$ (2,998,058)	$ (6,586,776)
Net Obligations	$ (2,998,058)	$ (6,586,776)
Other Resources:		
Transfers In/Out without Reimbursement (+/-)	48,444	1,446,811
Imputed Financing from Costs Absorbed by Others	152,556	149,230
Other (+/-)	5,373	(12,809)
Net Other Resources used to Finance Activities	$ 206,373	$ 1,583,232
Total Resources used to Finance Activities	$ (2,791,685)	$ (5,003,544)
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 (-)	$ 1,891,696	$ 4,678,627
Unfilled Customer Orders	1,078,532	(684,377)
Resources that Fund Expenses Recognized in Prior Periods (-)	(371,907)	(24,751)
Resources that Finance the Acquisition of Assets (-)	(26,396,383)	(28,032,907)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations:		
Other (+/-)	(53,817)	(1,434,002)
Total Resources used to Finance Items not part of the Net Cost of Operations	$ (23,851,879)	$ (25,497,410)
Total Resources used to Finance the Net Cost of Operations	$ (26,643,564)	$ (30,500,954)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in Exchange Revenue Receivable from the Public (-)	$ 337,467	$ (375,589)
Other (+/-)	71,751	684,061
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 409,218	$ 308,472

As of September 30	2016	2015
(Amounts in thousands)		
Components not Requiring or Generating Resources:		
Depreciation and Amortization	$ 2,276,443	$ 1,691,665
Revaluation of Assets or Liabilities (+/-)	(5,125,678)	(3,318,889)
Other (+/-)		
Cost of Goods Sold	27,273,232	29,635,976
Other	(1,239,584)	(141,665)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 23,184,413	$ 27,867,087
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 23,593,631	$ 28,175,559
Net Cost of Operations	$ (3,049,933)	$ (2,325,395)

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

DLA adjusted the note schedule in the amount of $1,113,813,120.09 to bring it into balance with the Statement of Net Cost. The adjustment is reported in Components Not Requiring or Generating Resources.

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

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

Composition of lines titled, "Other"

Resources Used to Finance Activities consist of Other Financing Sources for corrections made for erroneous Interest, Penalties, and Administrative fees charged to Fuel Exchange Agreement customers for DLA Energy.

Components Requiring or Generating Resources in Future Period: Consists of Future Funded Expenses for Environmental Liability cleanup costs in Enterprise Business Systems for DLA Energy.

Components not Requiring or Generating Resources: Consists of Other Expenses Not Requiring Budgetary Resources for an adjustment to the note schedule to bring it into balance with the Statement of Net Cost for DLA Energy, DLA Supply Chain Management, and DLA Document Services.

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.

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015

HERITAGE ASSETS

For Fiscal Year Ended September 30, 2016					
Heritage Asset Categories	Measurement Quantity	As of 10/01/15	Additions	Deletions	As of 9/30/16
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.

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

The fiscal year 2016 categories are defined as follows:

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

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

DLA has no Stewardship Land.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

For 4th QTR Fiscal Year 2016 (In Millions of Dollars)						
	Fiscal Year (2016)			Fiscal Year (2015)		
	1. Plant Replacement Value	2.Required Work (Deferred Maintenance & Repair)	3.Percentage (Required Work /Plant Replacement Value)	1. Plant Replacement Value	2.Required Work (Deferred Maintenance & Repair)	3.Percentage (Required Work /Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$40,070.4	$ 607.2	1.5%	$ 40,312.5	$ 1,179.1	2.9%
Category 2: Buildings, Structures, and Linear Structures (Heritage assets)	$ 2.8	$ 0.2	7.0%	$ 2.8	$ 0.5	17.9%
Inactive Real Property						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 641.4	$ 30.6	4.8%	$ 369.6	$ 8.9	2.4%

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

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

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

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

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

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

Facility Categories are as follows:

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

SUPPLY CHAIN MANAGEMENT OVERVIEW

SUPPLY CHAIN MANAGEMENT ACTIVITY GROUP

The Supply Chain Management Activity Group consists of three supply centers, one support center, two service centers, and several support organizations. The supply centers are located in Columbus, Ohio, Richmond, Virginia, and Philadelphia, Pennsylvania. DLA supports its Military Service customers by managing supply chain business processes that ensure worldwide logistics support is provided at the right time, to the right place, and consistently at the best value in peacetime, emergency, and wartime scenarios. Each supply center acts as a supply chain lead for one or more commodity groups. Each commodity group contains common suppliers, similar items, and to some extent, similar customers. They are formed to improve alignment with industry and customers. The 9 supply chains at these three centers include: DLA Troop Support, DLA Aviation, DLA Land and Maritime (associated with weapon system spare parts and related consumable materiel), Construction and Equipment, Subsistence, Clothing and Textiles, Industrial Hardware, and Medical. The DLA Energy, which is located at Fort Belvoir, Virginia, purchases, manages, positions, and sells fuel to the Military Services and provides centralized energy supply chain support to meet the energy needs of the military installations. The service centers are: DLA Information Operations Logistics Information Service, located in Battle Creek, MI, manages the Federal Supply Catalog System and provides logistics information products and services for all military and civilian activities; DLA Information Operations Transaction Services, located in Dayton, Ohio, provides support to DLA's logistics mission by editing and routing electronic logistics transactions (including maintaining the addresses of customers and suppliers), maintaining network interoperability for the logistics community, and conducting special services and reports.

MISSION

The Supply Chain 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 5.1 million separate line items that support the 9 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 Chain Management Activity Group are consistent with those in the DLA Strategic Plan. By achieving these goals, DLA will ensure that the supplies and services required by its customers are procured and delivered in the most effective and efficient manner and that these services reflect the customers' concerns for timeliness, quality, and cost. These goals will be achieved through a series of supporting strategies and executed primarily by the supply centers.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

- **Strategic Sourcing (SS):** SS focuses on stratifying and satisfying customer driven high demand and readiness hardware items through long-term contracting coverage and process improvements. Over 201,300 of the 3.8 million hardware items managed by DLA are through long-term agreements. Long-term contract items made up 74% of DLA spending in FY 2016.

- **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 2015 the Warstopper program has offset nearly $6.0 billion in War Reserve Materiel inventory purchases - a ROI of more than 6.4:1. DLA expects a similar ROI on the $48.0 million Warstopper Program investment made in FY 2016.

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

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

EBS Customer-Relationship Management (CRM): DLA uses standard Enterprise-wide automated management tools and processes to more deliberately understand Warfighter needs and meet customer expectations. In March 2006, DLA began using these EBS CRM tools and processes for account management, opportunity management, and customer outreach. In the following month, analytics and service modules were configured and deployed. EBS CRM reached full operational capability in July 2007. In March 2008, EBS CRM was extended to our Supplier Operations business area in order to capture life-cycle documentation of customer issues such as expedite requests. Approximately 5,400 DLA employees now use the system. EBS CRM system enhancements continually improve program reporting, customer outreach, account management, opportunity management and various other service capabilities. Examples of recent and on-going improvements include:

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

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

- Implementing CRM Service Management to support documentation of customer service requirements with our Fleet Readiness Centers as well in support of Marine Corps Logistics Base, Albany, GA and Marine Corps Logistics Base, Barstow, CA.

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

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

PROGRAM PERFORMANCE INDICATORS

The key program performance indicators described below are included as components of DLA's Fusion Center and are tracked closely by the Agency. The display of metrics data in the Fusion Center provides DLA management with access to timely, complete, accurate, and reliable performance and financial data. Metrics are reviewed at the executive level as part of the DLA Executive Board on a quarterly basis and monthly during the J3 Agency Performance Review. In addition, these metrics are key elements in DLA's Performance Based Agreements (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 for FY 2016 was 96.3%. The hardware portion of DLA's business performed at 90.3%, which is below the Director's established goal of 91.0%. The PLFAs have action plans in place for improving their supply chain MA throughout the course of FY 2017, which includes agile procurement and maintaining accurate stockage levels while balancing costs. The FY 2017 goals remain unchanged from FY 2016 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 by a particular date of interest. Total BOs are customer orders which are in a backorder status for material that DLA can act upon to expedite the fill. There is filtering logic in place that excludes select open orders that automatically go into Unfilled Order (UFO) status as part of the process of filling the order. The total number of all BOs, the number of BOs that are currently over 180 days old (referred to as "aged BOs"), and the number of BOs that are currently over 3 years old are measured. Because backorders create a failure for MA, the two metrics are typically correlated—a high level of backorders generally corresponds to a lower MA. At the close of FY 2016, backorders measured 388,768 across the Agency, with 93,471 in the aged category. For hardware, backorders were at 266,535 against a Director established goal of 233,421. The aged category for hardware measured at 62,298 against a Director established goal of 64,088. Finally, backorders older than 4 years measured at 199, a 68% increase from the beginning of the fiscal year, and above the Director's established goal of zero. As with MA, the PLFAs have action plans in place to reduce their backorder levels over the course of FY 2017. The FY 2017 hardware goals changed from the FY 2016 levels: 65,338 for aged. Total backorders will be measured with a backorder index metric with a goal of 10.3.

On-Hand Purchase Request (PR) Aging measures the age of all open PRs from their creation date against a standard of 50 to 65 days for small PRs and 175 to 190 days for large PRs. 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 award timeliness standards. At the close of FY 2016, On-Hand PR Aging timeliness was at 56.6% for small PRs and 75.6% for large PRs. A number of major DLA initiatives including the Time to Award Team (TTAT) administrative lead time reduction efforts 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 Supply Chain (SC) responsiveness to Air Force Air Logistics Center (ALC) customer demands for DLA items. Included in each month's population are AF Maintenance document (M-doc) orders created in the reporting month, both filled and remaining on backorder at month end. Age is determined from Julian date in Maintenance document through issue date (date stock is located on base). Any cancellations are removed from population at month end. Management objective is 90% of orders received in a reporting month are filled within two days. Each ALC's ORT is computed using the same logic, methodology, and data source Center of Parts Activity (COPA). Reporting methodology was changed in December 2013. Performance has remained steady in FY 2016 at an average of 92.0%. 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 Stock Keeping Unit (SKU) Builder (November 2012), 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 Industrial Prime Vendor (IPV) items that have depot demand (October 2013), and a significant safety stock investment to improve availability of stock at the Industrial Support Activities (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 2016, the Supply Chains reduced PRs in process from 120,424 at the end of October 2012 to 117,154.

- **Time to Award Goals**
  - Awards without Buyer Assist tracks all Simplified Acquisition Procedure (SAP) awards processed by the automated evaluation system with no human intervention. The Time to Award goal is 10 days. As of FY 2016, the 85th percentile measured 15 days, which is down from 17 days in September 2015.
  - Manual (SAP) Awards with Buyer Assist tracks all SAPs processed only by human intervention. The Time to Award goal is 35 days. As of FY 2016, the 85th percentile measured 135 days, which is slightly up from 133 days in October 2015.

- Manual (Large) Awards tracks all Large contracts (over SAP), which can only be processed by humans. The Time to Award goal is 110 days. As of FY 2016, the 85th percentile measured 337 days, which is up from 308 days in October 2015.

- Long Term Contract (LTC) Awards

  - This metric tracks all LTCs (Delivery Orders can only come from LTC “D-type” contracts), which can only be processed by humans.

  - For LTCs valued at less than $10.0 million (the Time to Award goal is 140 days) as of FY 2016, the 85th percentile measured 285 days, which is down from 327 days in October 2015.

  - For LTCs valued at more than $10.0 million (the Time to Award goal is 190 days) as of FY 2016, the 85th percentile measured 261 days, which is down from 435 days in October 2015.

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 metric used is the LTC Obligation Rate.

LTC Obligation Rate: Measures the overall success at maintaining coverage and selecting the correct items, and in the right quantities, to be placed on LTC as a percent of total obligations made against items on LTCs during the fiscal year. The FY 2016 (as of June 2016) LTC contract obligations rate was 75%. The DLA Headquarters (HQ) continues to track strategic opportunity initiatives established by the PLFAs.

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 2016 Goal	FY 2016 Actual
DLA Materiel Supply Chains	$0.98	$0.98
DLA Distribution –Processing	$31.54	$34.21
DLA Distribution – Covered Storage	$5.40	$9.73
DLA Disposition Services – Per Line Item	$49.07	$74.46
DLA Disposition Services – Per Pound	$0.10	$0.12

Unit Cost Results	FY 2016 Goal	FY 2016 Actual
Energy Unit Cost per barrel sold	$113.12	$85.15
Petroleum Product Cost per barrel	$92.88	$65.76

FINANCIAL RESULTS

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

Overall, the Agency had a negative NOR of $2,296.3 million at the end of September 2016. The primary drivers for the NOR financial loss is the reprogramming of $3,038.0 million from DLA Energy and higher expenses for DLA SCM; partially offset by lower product costs and higher sales for DLA Energy and higher sales for DLA SCM. The Agency's net outlays were $1,075.8 million at the end of September 2016 due to lower product costs and higher sales for DLA Energy and higher sales for DLA SCM; partially offset by higher disbursements for DLA SCM.

($ in millions)	NOR	Net Outlays
DLA Energy	($2,490.6)	($1,681.6)
DLA Supply Chain Management	$182.5	$623.1
DLA Information Operations Document Services	$11.8	($17.3)
DLA WCF	($2,296.3)	($1,075.8)

DLA DISTRIBUTION OVERVIEW

DLA DISTRIBUTION

As a DLA primary level field activity (PLFA), 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.

Highly skilled employees provide timely distribution services to customers around the globe. In FY 2016, DLA Distribution processed over 14.8 million receipts and issues supporting customer operations worldwide, including support to combat operations, humanitarian assistance missions, whole of government (WoG) partners and a multitude of military exercises.

MISSION

The mission of DLA Distribution is to be the global distribution service provider for the Department of Defense (DoD) and valued customers.

STRATEGIC GOALS

DoD is scaling down operations overseas and drastically reducing costs. As a result, DLA's sales and workload have decreased from its peak several years ago and DLA Distribution is faced with the challenges of this new environment. DLA Distribution will continue to focus on providing effective and efficient distribution services which will provide best value support to the Warfighter by supporting the Director's five Goal Areas:

Warfighter First

People and Culture

Strategic Engagement

Financial Stewardship

Process Excellence

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

DLA Distribution's approach will meet agreed upon customer requirements within FY 2017 resource constraints. The DLA Director's Strategic Plan, Audit Readiness/ Sustainment, Process Excellence, and Continuous Process Improvement (CPI) will serve as the foundation of how we will strengthen ourselves to build our enabling storage and distribution (S&D) foundation of people, processes and technology to create an effective, efficient distribution organization that provides best value to the Warfighter. DLA Distribution will execute the approach through five goal areas that combine to reach our four end states:

Meet Customer Requirements:

- End-state: Executing the mission to achieve negotiated customer requirements.
- Rationale: To remain relevant as the DoD's S&D provider of choice, DLA Distribution must meet our customer's requirements in order to allow them to perform their worldwide missions.
- Measures of success: Achieve 80% amber and green status network-wide on monthly assigned Acceptable Performance Levels (APL) within budgeted resources**.**

Achieve/sustain Audit Opinion:

- End-state: Organizational processes documented; employees trained and working to standard; leadership managing a quality control and assurance process; leadership managing evidential matter in a disciplined and timely way.
- Rationale: A fundamental competitive advantage and a requirement of DoD is to "sustain accountability, control, and visibility of materiel". This is achieved by disciplined mgmt. of processes, enabling technologies, quality control & assurance, and development of people.
- Measures of success: Audit Opinion in FY 2017, sustain Statement on Standards for Attestation Engagements 2016 (SSAE 16) Inventory Opinion.

Optimize Total Supply Chain Costs:

- End-state: All decisions are evaluated by considering total supply chain costs and potential savings (e.g. transportation, material processing, maintenance, supplies, personnel, inventory, acquisition, etc…).
- Rationale: DLA Distribution has the expertise to effectively optimize the supply chain for our customers.
- Measures of success: Optimize supply chain cost by $39.5M (internal cost + external cost) while demonstrating that best value decisions are reached.

Resilient Organization:

- End-state: Flexible, responsive, recoverable, and able to quickly adapt to changing business environments while achieving outstanding results.
- Rationale: Creating and maintaining a resilient organization will match the workforce's output with its capability.
- Measures of success: Increase deployable readiness, create a problem solving culture, reduce absenteeism, increase individual productivity.

PROGRAM PERFORMANCE INDICATORS

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

The FY 2016 goals for inventory accuracy were: 99% for items in the high dollar strata (Category A) and 95% for the remaining three strata.

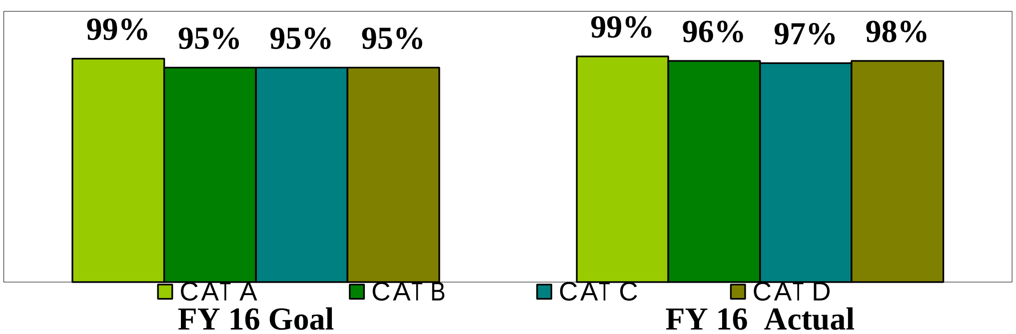
Category A: Unit Price > $1,000

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 2016 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2016, 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 and denial rate performance can be viewed on the next pages:

Performance Indicators	FY 2016 Goal (Average Days or Hours)	FY 2016 Actual (Average Days or Hours)
RECEIPT INDUCTION:		
• New Procurement Tailgate to Induction	24 hours	10.81 hours
• Customers Returns Tailgate to Induction	120 hours	60.95 hours
• RDOs Tailgate to Induction	48 hours	48.26 hours
• STOs Tailgate to Induction	48 hours	90.16 hours
RECEIPT STOW:		
• New Procurement Induction to Stow	7 days	2.25 days
• Customers Returns Induction to Stow	10 days	6.43 days
• RDOs Induction to Stow	10 days	5.20 days
• STOs Induction to Stow	10 days	3.78 days
ISSUES:		
• High Priority Requisitions	1 day	1.36 days
• Routine Requisitions	3 days	2.27 days
• Routine Military Service Redistributions	3 days	1.88 days
• Routine DLA Redistributions	5 days	2.60 days
• Dedicated Truck (% shipped by Next Scheduled Departure Date)	85%	85.84%
DENIALS:		
Denial Rate: Percentage of issues unavailable for orders due to material shortage against the total number of issues made.	0.45%	0.32%

FINANCIAL PERFROMANCE 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 2016).

Unit Cost Results	FY 2016 Goal	FY 2016 Actual
Unit Cost-Total Composite Processing Rate	$31.73	$34.25
Unit Cost-Covered Storage	$7.33	$7.92

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 above the goal established for FY 2016 by $2.51 primarily due to actual processing expenses being above plan by $51.6 million ($470.4 million actual vs $418.8 million planned). Processing unit cost was offset by actual workload being 0.5 million lines above plan (13.7 million lines actual vs. 13.2 million planned).

The Covered Storage unit cost measures the costs to provide covered storage to the cubic footage used. The actual Covered Storage unit cost was $0.59 above the goal primarily due to actual workload being lower than planned by 5.5M cubic feet (40.0 million cubic feet actual vs. 45.5 million planned). The Covered Storage unit cost was offset by actual costs being below plan by $16.6 million ($316.8 million actual vs $333.4 million planned).

DLA DISPOSITION SERVICES OVERVIEW

DLA DISPOSITION SERVICES

The DLA Disposition Services operates through a central location headquarters in Battle Creek, MI, and 117 locations throughout the world. DLA Disposition Services receives and disposes of excess DOD materiel through various means, including reutilization, sales or destruction/disposal. In FY 2016, materiel with an estimated acquisition value over $31.74 billion was turned in to DLA Disposition Services and $1.5 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 HW. The business services provided by this activity group generated revenues of approximately $128.5 million in FY 2016. By year's end, this activity group employed 1,457 civilians, 15 active duty personnel (14 filled), and is supported by 6 reserve units with 240 service members.

MISSION

Provide effective and efficient global solutions to Warfighters and our other valued customers.

STRATEGIC GOALS

As we look to the future, we will continue to align our efforts and help achieve DLA's mission, strategic goals and objectives as stated in the DLA Disposition Services FY 2016 AOP. In order to ensure alignment, the Disposal Services Directors were to develop action based, annual plans that are tailored to the tactical level (Area Manager/Site Lead) incorporating the dynamics of their operating environment. The plans include specific, measurable actions that address implementation of standardization, desk top guides, production efficiencies, customer training/engagement and improving culture. Plans were briefed during the Senior Leadership Summit in October 2015 and tracked quarterly through FY 2016. Our plan was established with high marks in order to meet the challenging year. Accordingly, goals of DLA Disposition Services include: Strengthen workforce competencies, develop and implement a framework for effective succession management of key positions, Network Optimization, ship recycling, and compliance with the Law Enforcement Support Office (LESO) White House Performance Working Group (Executive Order# 13688).

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

WARFIGHTER FIRST

Joint Force Integrated Expeditionary Capability: In accordance with the DLA Director's guidance to enhance the DLA Rapid Deployment Initiative, as well as be able to respond to Global Response Force (GRF) and Homeland Defense (HD)/Defense Support of Civil Authorities (DSCA) requirements, DLA Disposition Services continues to refine and upgrade its Joint Force Integrated expeditionary capability. This capability is able to deploy and provide disposal support to the full range of military operation and/or HA missions while resourcing expeditionary equipment sets (ESSs) that augment this capability. This force combines our five Disposal Remediation Teams (DRTs) of military reservists with a force of Civilian Expeditionary Workforce (CEW) personnel through a joint manning document of 243 Military Reservist and 133 CEWs. These teams are trained on expeditionary skills through a Mission Essential Task List and training methodology that builds on individual and collective skill training iterations which are validated through an annual readiness exercise (see Overseas Contingency Operations Readiness Training (OCORT) below).

Expeditionary Site Set (ESS) Disposal Capability: Starting in 2014, DLA Disposition Services built one ESS training package and three deployment-ready ESS packages. The packages include vehicles, Material Handling Equipment (MHE), and equipment used to demilitarize (DEMIL)/mutilate property, which are deployable to support worldwide operations. Four ESSs were staged in FY 2015 with ESS One as a Strategic Reserve to Afghanistan, in DSD Central at Camp Arfijan Kuwait in support of Central Command (CENTCOM) operations; ESS Two in Guam, in support of U.S. Pacific Command (USPACOM) Operations, and ESS Three/Four are utilized for training and maintained at Battle Creek, MI for worldwide deployment and HA and Disaster Relief (DR) support operations. Equipment sets were primarily assembled through reutilization of equipment from the military services, and equipment no longer required to support CONOPS in CENTCOM; filling the remaining few equipment requirements and identifying improvements learned through training and exercises.

Overseas Contingency Operations Readiness Training (OCORT): In July 2016, DLA Disposition Services conducted its third OCORT with 35 CEW and 22 Expeditionary Disposal Remediation Team (EDRT) members. The OCORT has evolved from a specific training exercise in FY 2014 to a field training exercise (FTX), in which personnel are organized as a Disposition Services Unit (DSU)with DRTs to setup field sites within 96 hours, execute full range of disposal operations), close out sites, and redeploy. The FTX trains and readies personnel and teams for deployments, as well as validates force structure, equipment, training, key mission essential tasks, and processes and procedures required to execute and sustain worldwide deployments in FY 2016. The exercise included scenario based situations, and actual Reserve and National Guard customers from three of the four military services, which facilitated a high degree of realism that include field site selection and set up; receiving of property; and demilitarization operations. OCORT is the capstone of the Expeditionary force training continuum. This training and validation strategy is part of an overall Disposal Forces Generation (DFORGEN) model that rotates EDRT and CEW members as they become available for deployment while maintaining readiness or serving in their mandated dwell time. DLA Disposition Services continues to seek the means and ways to refine its expeditionary capabilities centered on the right doctrine, manning, equipment, and training. This approach will provide capabilities that meet current and future exercise and contingency operational requirements.

In short, DLA Disposition Services has refined the EDRT and CEW manning, equipping, training and sustaining capability to meet exercise and CP requirements.

Network Optimization: The effort is designed to increase the effectiveness and efficiency of the property disposal process and the resources required to execute property disposal, while simultaneously optimizing and standardizing the customer experience through identification of site locations, suite of services per location, and transportation networks to support the revised network. This effort is working in conjunction with other efforts, such as full time employee (FTE) management plans, Distribution/Disposition Consolidation efforts (D2), process standardization and inventory management.

The DLA Disposition Services Network Optimization team worked collaboratively as sub-teams working individual lines of effort (LOE):

- LOE 1: Customer Requirements – Identifying/analyzing customer needs and volume/locations to our suite of services per location.
- LOE 2: Design Reverse Logistics Network - Map current network including workload/services/transportation and design scenarios for optimized network.
- LOE 3: Standardized Service Set – Analysis of work processes through time/motion studies and review of resources to determine optimum resource set per location size/type.
- LOE 4: Change Management – Document and share information through various venues to keep internal (employees) and external customers informed.

Using the analyses above, the DLA Disposition Services Network Optimization team completed initial CONUS network optimization analysis and planning in FY 2016. This analysis identified three courses of action to optimize the organizational structure to meet customer requirements while minimizing customer impact, time, cost and churn. The Network Optimization execution plan will begin on October 1, 2016 and complete NLT October 18, 2016.

Customer Relationship Management (CRM): In FY 2016 DLA Disposition Services developed a monthly 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 2016:

- The customer satisfaction rate ended with an overall satisfaction rate of 94%, consistently exceeding the 90% goal each month.
- The survey response rate ended with an overall response rate of 23%, well above the 16% goal.

STRATEGIC ENGAGEMENT

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

LESO Customer Support-Strategic Partnerships: LESO transferred $423.8 million (Original Acquisition Value) of property to LEAs, comprised of 29,514 line items. This total increased from the entire prior fiscal year by 1% in acquisition value and 31% in requisitions. LESO briefed at the Police Securities Expo, Airborne Law Enforcement Association, and the National Tactical Officers Association to share information 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 conducted biannually for each participating state (49), territory (3), and the District of Columbia. LESO conducted 28 reviews in FY 2016.

FINANCIAL STEWARDSHIP

Price Reductions in Awarded Contracts: DLA Disposition Services substantially revamped the Contract Line Item Number (CLIN) structure for HW disposal contracts. The resultant contracts paralleled commercial practices by providing better detailed waste descriptions and pricing per container size, rather than pounds. This reflected the true HW treatment and disposal market, reducing risk to the Contractor without transferring risk to the customer, generating more interest and competition in solicitations, and ultimately reducing disposal costs to the warfighter.

Improved Acquisition Execution: In FY 2016, DLA Disposition Services implemented several initiatives to improve acquisition and acquisition management efficiencies and effectiveness. The average Acquisition Lead Time (ALT) for contracts above $150,000 increased from 134 days in (FY 2015) to 136 days in FY 2016. This nominal increase occurred as a result of an increased number of HW purchase requisitions received by the Contracting Office this fiscal year. Also, during FY 2016, the number of Government Purchase Card (GPC) holders remains constant at 41. Small Business goal achievement is a priority of Disposition Services. We exceeded the Small Business goal of 53.90% by over 8%. During FY 2016, 69.44% of solicitations issued for long term contracts were set aside for small business. This dedication to maximize support to small business will continue to produce favorable results for the next five years.

Usable Property Sales Term Contract: In 2014, CONUS usable property was split into two separate commodity streams to better align with industry and maximize revenue. The Commercial Venture 4 Rolling Stock (CV4R) contract manages the sale of rolling stock property and the Commercial Venture 4 Liquidation (CV4L) contract encompasses all other usable property. The rolling stock contract provides Disposition Services with 75.29% of the gross sales proceeds once the contractor re-sells the property. The non-rolling stock sales contract is based on a percentage of the acquisition value and provides the government with 4.35% of an item's original acquisition value. Strict national security measures are in place for both these contracts prior to releasing property to the general public. 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 contractors so that they can systemically remove property from their marketing website or retrieve items in their inventory for return to DLA Disposition Services. The sales contracts have performance based incentives to prevent the release of controlled property. Filters are in place to catch controlled property prior to it being released to the general public. DLA Disposition Services has usable sales in Central, Europe, and

Pacific regions. During FY 2016, pilot sites in Europe were added to the CV4R contract whereby rolling stock items were issued and sold by the contractor. In total, the FY 2016 worldwide sales revenue was $128.5 million.

Scrap Venture (SV): The prior SV contract expired in 2015. This year, a negotiated contract was executed to allow for a more complete evolution of the scrap sales contracts in CONUS. The SV scrap product pool is now divided into two different contract streams. The first is the electronics recycling contract for the processing of the Automated Data Processing Equipment (ADPE), De-manufacturing, and electronic Demilitarization required inventory. This contract structure started in the first quarter of FY 2016. Contract requires all buyers of the electronic scrap to be registered Responsible Recyclers (R2) or E-Stewards. Per guidelines in the contract the government will ship all inventory to the buyer, contract has been aligned with industry capability, and indexed to a corresponding metals market price.

Remaining scrap management was established in second quarter of FY 2016. DLA Disposition Services will leverage the contract structure of the CV4R sale where the buyer will return a percent of the gross re-sale to the Government. This contract will continue to leverage the buyer to assist in the management (unloading, sorting and selling) of the scrap yard with Government oversight. The negotiated sale was essential to allow for system support to be available for the new scrap sale structure.

Ship Recycling: DLA Disposition Services resumed the ship recycling program in 2016 after 15 years. The first sale of six vessels was awarded for $52 thousand in sales revenue. Two ships are completely dismantled, two are more than 50% dismantled and two remain to be towed to the buyer's facility. The second sale of four ships has been offered unsuccessfully twice. We are currently in discussions with Naval Sea Systems Command (NAVSEA) to determine way forward. Based on the current depressed metals market and the extensive costs associated with towing and remediation, we do not expect this to be a significant source of revenue.

PROCESS EXCELLENCE

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 or controls. The program consists of: Self-Assessments (SA) and Effectiveness Reviews (ER). Each level of oversight has specific elements designed to provide a comprehensive review:

- **Self-Assessments:** SAs are completed twice annually, (109 assessments) to assess 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:** ERs are independent reviews of field sites' effectiveness and compliance with existing operational and environmental regulations and policies. ERs are 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 ERs 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, the out-brief provides the results, impact, and recommended corrective actions to the DLA Disposition leadership. These out-briefs provided visibility of significant issues to the DLA Disposition Services leadership early in the assessment process ensuring expeditious resolution. In FY 2016, DLA Disposition Services conducted 18 ERs and follow-up reviews at 3 sites that did not meet standards during the initial ER.

Local Stock Number (LSN) Verification: DLA Disposition Services conducted LSN and Batch lot verification at six centralized sites in CONUS along with operations in the Pacific and European theaters. In March 2016, the CPBs were decentralized as part of the D2 initiative, a new LSN verifier WG-7 position was created and the hiring processes are underway to provide LSN verification responsibilities at 14 sites. The creation of batch lots was discontinued in FY 2016 IAW Audit Readiness guidelines and directives; however, there were over 200 batch lots totaling 530,000 lines of property that had been verified by CPB personnel between October 2015 and March 2016. In FY 2016, the sites performing LSN verification reviewed over 4,000 lines of property identified 1,488 numbers of National Stock Numbers (NSNs) that had been turned in by the Military Services using an LSN and determined that 686 lines of property were ineligible for release outside of DoD.

Controlled Property Verification Office (CPVO): The 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 NSN received (worldwide - weekly), sales delivery orders from the field sites, Q-Tools (sales partners listing) and the sales partner's websites of items offered for sale. The CPVO works closely with the DOD DEMIL Coding Management Office (DDCMO) to coordinate the validation of the assigned Federal Logistics Information Service (FLIS) DEMIL code for all NSNs that have been received into the DLA Disposition Services’ network. The CPVO submitted 6,142 DEMIL code challenges and achieved an 94% approval rate for DEMIL code challenges and maintains timeliness metrics for each review process. In FY 2016, the CPVO reviewed over 2.2 million items and removed over 23,000 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 Tool, and the Do Not Sell List which is distributed to the sales contractor.

Nuclear Weapons Related Material (NWRM): DLA Disposition Services is responsible for the identification and management of Nuclear Weapons Related Material and other controlled property categories including, but not limited to, F-14 components, body armor, military camouflage clothing and controlled laboratory equipment. During FY 2016, the CPVO conducted four NWRM tests (Hill, Tucson, Colorado Springs and McAlester). Each test was conducted with the intent of testing the DLA Disposition Services NWRM receipt procedures. Each test concluded with the site discovering the NWRM test item as anticipated. As a result of the testing, DLA Disposition Services DSS was modified via Request for Change (RFC) and Incident Report (IR). The process includes dual verification, NWRM receipt notification banners and email notifications to the Disposition Service NWRM program office when any NWRM is inducted onto the accountable record. These changes were additions to the existing controls EBS rules and weekly inventory monitoring) applied to every DLA Disposition Services receipt.

PROGRAM PERFORMANCE INDICATORS

Reutilization/Transfer/Donation (R/T/D): RTD performance is measured by number of items reutilized, transferred and donated. 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 nonprofit organization. R/T/D 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 2016, DLA Disposition Services successfully reutilized, transferred, or donated over 223,000 line items of excess property with a value of over $2.8 billion.

Humanitarian Assistance/Disaster Relief: DLA Disposition Services supported humanitarian assistance and disasters at home and abroad. In FY 2016, DLA Disposition Services issued 1,974 line items with a value of $30.5 million to DOD Humanitarian Assistance Program and 9,807 line items with a value of over $43.5 million to the U.S. Agency for International Development. Provided 6 line items with a value of $533 thousand support to the Louisiana flood disaster.

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 Item 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.
- 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 HW - cost to dispose (environmentally regulated).

- Non-hazardous item destruction - cost to destroy non-hazardous items.

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

Financial Performance Measures	FY 2016 Goal	FY 2016 Estimated Actuals
Cost per Line Item	$49.07	$74.64
Cost per Pound	$0.10	$0.122

DLA INFORMATION OPERATIONS DOCUMENT SERVICES OVERVIEW

DLA INFORMATION OPERATIONS DOCUMENT SERVICES

DLA Information Operations 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 Information Operations Document Services provides time sensitive, competitively priced, high quality products and services that are either produced in-house or procured commercially. DLA Information Operations Document Services manages its mission through a headquarters, located in Mechanicsburg, PA, and a worldwide network of 134 production facilities. During FY 2016, DLA Information Operations Document Services earned $334.7 million in revenue and employed 632 civilians at year-end. Major customers were: Navy/Marines (39.18%), Defense Agencies (24.79%), Army (16.71%), Air Force (13.75%) and non-DoD customers (5.57%).

MISSION

The mission of DLA Information Operations Document Services is to provide best value document automation and management services in support of America's Armed Forces and Federal Agencies. DLA Information Operations Document Services' value to DoD is characterized by two elements. First, DLA Information Operations 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 Information Operations 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 Information Operations 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 DLA Information Operations 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

DLA Information Operations Document Services is teaming with DLA Aviation, DLA Distribution and National Geospatial-Intelligence Agency (NGA) to establish a New Model for Map Support Office (MSO) at Ft. Bragg. To support the DOD map mission, DLA is establishing a new model of MSO for the Ft. Bragg customer mission, including critical deployment requirements, contingency stock, and customer training in support of Forces Command Intelligence Readiness & Operations Center (FIROC). The facility will support Forces Command Global Response Force (GRF), Combat Command's Regionally Aligned Force (RAF) contingency mission with hardcopy map and digital Geospatial Intelligence (GEOINT) requirements of standard and non-standard products at Ft. Bragg, NC. This includes support for the U.S. Army Special Operations Command (USACOM), Special Operations Forces (SOF), Joint Special Operations Command (JSOC) and Quick Reaction Forces (QRF). The new model will ensure that shelf stock will exactly compliment maps available from print-on-demand. If successful, this will be a model for future MSOs.

DLA Information Operations Document Services began Phase III of its partnership with National NGA. Phase III of the implementation commenced in June 2016 and involves the partnership between NGA and the Department of Transportation Federal Aviation Administration (FAA)NGA taking the responsibility for the FAA National Aeronautical Navigation Products (FAA/AeroNav) products. This includes Visual Flight Rules (VFR) and Instrument Flight Rules (IFR) charting products, Airport/Facility Directory (A/FD) all of which are critical to the safety of air navigation. The majority of the products are critical to flight safety, and are time-sensitive in accordance with the international Aeronautical Information Regulation and Control (AIRAC) cycle. DLA Information Operations Document Services will accomplish this workload using a combination of in-house capability and contract support.

DLA Information Operations Document Services entered final phase of scanning for detainee records. We are working on a multiyear project to create a digital, indexed source of intelligence records for the U.S. Army Office of the Provost Marshal General (OPMG). We are also scanning and storing the 10-12 million pages for records from Operation Enduring Freedom, Operation Iraqi Freedom, and Guantanamo Bay, Cuba. Converting these records to digital format will help OPMG maintain accountability and availability of the records. As the records are scanned and stored, DLA Information Operations Document Services is conducting a 100 % quality review of all records to ensure accuracy, completeness, readable resolution, and accurate cross-referencing, and has secured handling of the documents.

DLA Information Operations Document Services successfully completed the End of Year (EOY) output for the DFAS. We printed the entire workload of tax related documents to include W-2s, the Retiree Account Statements (RAS) and the Annuitant Account Statements (AAS) for all military/civilian employees both active and retired. This was produced on a very aggressive schedule, as we were challenged to complete over 14 million units within 60 days, December through January.

DLA Information Operations Document Services exceeds expectations for DoD CIO Office during output for Office of Personnel Management (OPM) Breach Notification Letters. In July 2015, the DoD CIO contacted us to partner together in an effort to print and distribute the OPM Breach Notification letters to impacted federal employees. The original estimate was 16.0 million and expanded to 20.1 million by the time all of the files were received. The project started on September 30, 2015 and was completed on December 4, 2015, which was a week ahead of schedule. This was the largest run ever to be completed by DLA Information Operations Document Services in that timeframe.

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 Information Operations Document Services quality performance as “satisfied” or “very satisfied.” We used a survey, professionally prepared and administered by an independent entity, to determine quality of finished product rating. We achieved our goal of 95%, with a weighted overall quality of products and services rating of 93.8%, with a 2% margin of error.

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

FINANCIAL PERFORMANCE MEASURES

In addition to program performance measures, DLA Information Operations 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 2016 Goal	FY 2016 Actual
Unit Cost per In-House Production Unit	.2042	.1980

DLA Information Operations Document Services produced 5% more in-house units than planned (773.0 million actual versus 734.8 million planned). Actual in-house costs were greater than planned ($141.1 million actual versus $127.7 million planned). The higher in-house cost is driven primarily by a larger order placed by the OPM offset by the continued reduction of in-house facility level overhead expenses. DLA Information Operations Document Services exceeded its in-house goal.

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of expenses over revenue of approximately $4.1 million revenue over expenses which resulted in a net operating result of $11.5 million.

Defense Logistics Agency
General Fund
Financial Statements and Footnotes

HIGHLIGHTS OF DLA'S FINANCIAL STATEMENTS FOR FY 2016

DLA prepares the four principal financial statements for its General Fund:

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

The analysis of each statement describes the General Fund results.

In accordance with DoD Reporting Requirements, DLA analyzed variances for Total Assets and Total Liabilities on the Balance Sheet with changes greater than 10% and $2.0 million change or changes greater than 2% of total assets. The analysis also includes changes greater than 10% and $2.0 million change of Net Costs of Operations on the Statement of Net Costs and Total Budgetary Resources and Net Outlays on the Statement of Budgetary Resources. Variances that meet these threshold requirements are explained within 30% percentile in either direction (over and under).

BALANCE SHEET

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

GENERAL FUND

Assets

Total DLA's GF Assets increased $140.1 million (5%) primarily due to an increase of $143.1 million in General Property, Plant & Equipment related to Military Construction-in Progress (CIP) projects. CIP increased primarily attribute to progression of projects by Naval Facilities Engineering Command (NAVFAC) and United States Army Corps of Engineers (USACE) involving construction of buildings, fuel tanks, fuel piping and pump houses.

Liabilities

Total DLA's GF Liabilities decreased $59.8 million (26%) primarily due to a decrease of $65.8 million in Environmental Liabilities for Installation Restoration Program (IRP) Base Realignment and Closure environmental corrective actions and IPR Active Installations Environmental Corrective Actions.

STATEMENT OF NET COST (SNC)

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

GENERAL FUND

DLA's GF Net Cost of Operations increased $180.2 million (52%) due to an increase of $135.0 million in Gross Costs offsets by a $45.2 million decrease in Earned Revenue.

Gross Cost increased primarily due to increases in Military Construction for NAVFAC ($74.5 million), Research, Development, Test & Evaluation (RDT&E) for the Defense Agencies Initiative (DAI) and Defense Enterprise System programs ($51.9 million) and Operation and Maintenance (O&M) for the Defense Travel System, Business Process Reengineering Center, and Classified programs ($8.0 million).

Earned Revenue decreased primarily due to a decrease of $36.7 million in O&M and a decrease of $8.4 million in RDT&E for changes in the agency's Strategic Focus Areas for DAI, Contingency Operations program and Business Process Reengineering Center.

STATEMENT OF CHANGES IN NET POSITION (SCNP)

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

GENERAL FUND

SCNP Analysis is not required for the GF based on the guidelines above.

STATEMENT OF BUDGETARY RESOURCES (SBR)

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

GENERAL FUND

SBR Analysis is not required for the GF based on the guidelines above.

Department of Defense - Unaudited

Defense Logistics Agency - General Fund

CONSOLIDATED BALANCE SHEET

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,475,170	$ 1,469,172
Accounts Receivable (Note 5)	2,388	10,157
Total Intragovernmental Assets	$ 1,477,558	$ 1,479,329
Accounts Receivable,Net (Note 5)	$ 342	$ 11
General Property, Plant and Equipment,Net (Note 10)	1,226,239	1,083,116
Other Assets (Note 6)	544	2,106
TOTAL ASSETS	$ 2,704,683	$ 2,564,562
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 18,557	$ 8,845
Other Liabilities (Note 15 & 16)	2,198	2,551
Total Intragovernmental Liabilities	20,755	11,396
Accounts Payable (Note 12)	35,061	41,564
Military Retirement and Other Federal Employment Benefits (Note 17)	4,694	4,839
Environmental and Disposal Liabilities (Note 14)	100,166	165,981
Other Liabilities (Note 15 & 16)	6,564	3,310
TOTAL LIABILITIES	$ 167,240	$ 227,090
COMMITMENTS AND CONTINGENCIES (Note 16)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 1,427,932	$ 1,407,812
Cumulative Results of Operations - Other Funds	1,109,511	929,660
TOTAL NET POSITION	$ 2,537,443	$ 2,337,472
TOTAL LIABILITIES AND NET POSITION	$ 2,704,683	$ 2,564,562

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited

Defense Logistics Agency - General Fund

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
Program Costs		
Gross Costs		
Operations, Readiness & Support	$ 317,486	$ 309,818
Procurement	10,688	9,587
Research, Development, Test & Evaluation	240,588	188,828
Family Housing & Military Construction	(8,824)	(83,307)
(Less: Earned Revenue)	(33,639)	(78,884)
Net Cost before Losses/(Gains) from Actuarial Assumption Change for Military Retirement Benefits	526,299	346,042
Net Program Costs Including Assumption Changes	$ 526,299	$ 346,042
Net Cost of Operations	$ 526,299	$ 346,042

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited
Defense Logistics Agency - General Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 929,660	$ 640,107
Beginning Balances, as Adjusted	$ 929,660	$ 640,107
Budgetary Financing Sources:		
Other Adjustments (+/-)	-	(62)
Appropriations Used	851,512	863,321
Transfers-In/Out without Reimbursement	2,594	-
Other Financing Sources:		
Transfers-In/Out without Reimbursement (+/-)	(415,867)	(230,352)
Imputed Financing from Costs Absorbed by Others	2,600	2,687
Other (+/-)	265,311	1
Total Financing Sources	706,150	635,595
Net Cost of Operations (+/-)	526,299	346,042
Net Change	179,851	289,553
Cumulative Results of Operations	$ 1,109,511	$ 929,660
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 1,407,812	$ 1,354,584
Beginning Balances, as Adjusted	1,407,812	1,354,584
Budgetary Financing Sources:		
Appropriations Received	875,980	904,989
Appropriations Transferred-In/Out	11,540	25,944
Other Adjustments (+/-)	(15,888)	(14,384)
Appropriations Used	(851,512)	(863,321)
Total Budgetary Financing Sources	20,120	53,228
Unexpended Appropriations	1,427,932	1,407,812
Net Position	$ 2,537,443	$ 2,337,472

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited
Defense Logistics Agency - General Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015
Amounts in Thousands

	2016 Combined	2015 Combined
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 442,746	$ 522,921
Unobligated Balance Brought Forward, October 1, as Adjusted,	442,746	522,921
Recoveries of Unpaid Prior Year Obligations	150,114	55,900
Other Changes in Unobligated Balance (+/-)	(12,552)	5,350
Unobligated Balance from Prior Year Budget Authority, Net	580,308	584,171
Appropriations (discretionary and mandatory)	887,073	911,140
Spending Authority from offsetting collections (discretionary and mandatory)	47,465	74,421
Total Budgetary Resources	$ 1,514,846	$ 1,569,732
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 1,040,592	$ 1,126,986
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	375,213	362,030
Unexpired Unobligated Balance, End of Year	375,213	362,030
Expired Unobligated Balance, End of Year	99,041	80,716
Unobligated Balance, End of Year (Total)	474,254	442,746
Total Budgetary Resources	$ 1,514,846	$ 1,569,732
Change In Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 1,065,510	$ 909,812
New Obligations and Upward Adjustments	1,040,592	1,126,986
Outlays (Gross) (-)	(906,600)	(915,388)
Recoveries of Prior Year Unpaid Obligations (-)	(150,114)	(55,900)
Unpaid Obligations, End of Year	1,049,388	1,065,510
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, October 1 (-)	(39,081)	(29,738)
Change in Uncollected Payments from Federal Sources (+/-)	(9,392)	(9,343)
Uncollected Payments from Federal Sources, End of Year (-)	(48,473)	(39,081)
Memorandum Entries:		
Obligated Balance, Start of Year (+/-)	1,026,428	880,074
Obligated Balance, End of Year (+/-)	$ 1,000,915	$ 1,026,429
Budget Authority and Outlays, Net:		
Budget Authority, Gross (discretionary and mandatory)	$ 934,538	$ 985,476
Actual Offsetting Collections (discretionary and mandatory) (-)	(38,368)	(65,079)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory) (+/-)	(9,392)	(9,343)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory) (-)	294	85
Budget Authority, Net (discretionary and mandatory)	887,072	911,139
Outlays, Gross (discretionary and mandatory)	906,600	915,388
Actual Offsetting Collections (discretionary and mandatory) (-)	(38,368)	(65,079)
Outlays, Net (Total)(discretionary and mandatory)	868,232	850,309
Agency Outlays, Net (discretionary and mandatory)	$ 868,232	$ 850,309

The accompanying notes are an integral part of the statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. BASIS OF PRESENTATION

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

Information relative to classified assets, programs, and operations is 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 (e.g. Remedial Action Cost Engineering and Requirements). 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 material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) General Property, Plant, and Equipment; (4) Intragovernmental Eliminations; (5) Accounts Receivable; (6) Accounts Payable; and (7) Accounting Entries.

1.B. MISSION OF THE REPORTING ENTITY

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

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

1.C. APPROPRIATIONS AND FUNDS

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

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

The Family Housing appropriation finances the routine operations, maintenance, and construction improvements of 124 military family housing units. Routine operation and maintenance includes management costs, utility costs and cyclical maintenance such as painting and renovations.

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

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

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

The Base Realignment and Closure (BRAC) appropriation finances environmental clean-up and required BRAC operations.

1.D. BASIS OF ACCOUNTING

The DLA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DLA's sub-entities. 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 continuing 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 able to collect and report financial information as required by USGAAP, there will be instances when the DLA's financial data will be derived from nonfinancial feeder systems.

1.E. REVENUES AND OTHER FINANCING SOURCES

DLA receives congressional appropriations as financing sources for general funds. These funds either expire annually or some on a multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. 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.

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

1.F. RECOGNITION OF EXPENSES

For financial reporting purposes, the 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 environmental liabilities. DLA continues to implement process and system improvements to address these limitations.

1.G. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. 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's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

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

1.H. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

This is not applicable to DLA GF.

1.I. FUNDS WITH THE U.S. TREASURY

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

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

1.J. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA GF.

1.K. ACCOUNTS RECEIVABLE

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

1.L. DIRECT LOANS AND LOAN GUARANTEES

This is not applicable to DLA GF.

1.M. INVENTORIES AND RELATED PROPERTY

This is not applicable to DLA GF.

1.N. INVESTMENTS IN U.S. TREASURY SECURITIES

This is not applicable to DLA GF.

1.O. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E)

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

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

1.P. ADVANCES AND PREPAYMENTS

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

1.Q. LEASES

This is not applicable to DLA GF.

1.R. OTHER ASSETS

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

1.S. CONTINGENCIES AND OTHER LIABILITIES

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

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

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

1.T. ACCRUED LEAVE

The DLA reports liabilities for accrued compensatory leave, annual leave, restored annual leave, 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's benefits include Medicare and Social Security.

1.U. NET POSITION

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

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

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

1.V. TREATIES FOR USE OF FOREIGN BASES

This is not applicable to DLA GF.

1.W. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

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

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

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

1.X. FIDUCIARY ACTIVITIES

This is not applicable to DLA GF.

1.Y. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

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

1.Z. SIGNIFICANT EVENTS

This is not applicable to DLA GF.

NOTE 2. NONENTITY ASSESTS

As of September 30	2016	2015
(Amounts in thousands)		
Intragovernmental Assets		
Fund Balance with Treasury	$ -	$ (1)
Total Intragovernmental Assets	$ -	$ (1)
Total Nonentity Assets	$ -	$ (1)
Total Entity Assets	$ 2,704,683	$ 2,564,563
Total Assets	$ 2,704,683	$ 2,564,562

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2016	2015
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 1,475,170	$ 1,469,172
Total Fund Balances	$ 1,475,170	$ 1,469,172
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ -	$ -
Fund Balance per DLA	1,475,170	1,469,172
Reconciling Amount	$ (1,475,170)	$ (1,469,172)

The DLA General Fund (GF) shows a $1,475,169,802.47 reconciling net difference with the United States (US) Treasury. The US Treasury maintains and reports fund balances at the Treasury Index (TI) appropriation level. Defense Agencies, to include the DLA, are included at the TI 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the United States Treasury does not separately report an amount for the DLA and, therefore, the entire DLA's Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount.

STATUS OF FUND BALANCE WITH TREASURY

As of September 30	2016		2015	
(Amounts in thousands)				
Unobligated Balance				
Available	$	375,213	$	362,030
Unavailable		99,041		80,715
Obligated Balance not yet Disbursed	$	1,049,389	$	1,065,508
NonFBWT Budgetary Accounts	$	(48,473)	$	(39,081)
Total	$	1,475,170		1,469,172

The Status of Fund Balance with Treasury (FBWT) 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. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated Balance not yet disbursed represents funds that have been obligated for goods and services but not paid.

Non-FBWT Budgetary Accounts reduces the Status of FBWT. The DLA's Non-FBWT Accounts include Unfilled Customer Orders Without Advance, and Reimbursements and Other Income Earned.

NOTE 4. INVESTMENTS AND RELATED INTEREST

This is not applicable to DLA GF.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 2,388	N/A	$ 2,388
Nonfederal Receivables (From the Public)	342	$ -	342
Total Accounts Receivables	$ 2,730	$ -	$ 2,730

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

Accounts receivable represent the DLA's claim for payment from other entities. 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	2016	2015
(Amounts in thousands)		
Nonfederal Other Assets		
Advances and Prepayments	$ 453	$ 2,103
Other Assets (With the Public)	91	3
Total Nonfederal Other Assets	$ 544	$ 2,106
Total Other Assets	$ 544	$ 2,106

Other Assets (With the Public) consists of a prior period adjustment related to NAVFAC CIP.

NOTE 7. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA GF.

NOTE 8. DIRECT AND LOAN GUARANTEES

This is not applicable to DLA GF.

NOTE 9. INVENTORY AND RELATED PROPERTY

This is not applicable to DLA GF.

NOTE 10. GENERAL PP&E, NET

As of September 30	2016						
	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	$	771	$	-	$	771
Software	S/L	2-5 or 10		140,082		(34,345)		105,737
Construction - in - Progress	N/A	N/A		1,119,731		N/A		1,119,731
Total General PP&E			$	1,260,584	$	(34,345)	$	1,226,239

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

Legend for Depeciation / Amortization Methods:

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

The DLA GF Software major asset class consists of Internal-Use Software Under Development that was transferred from the Business Transformation Agency at the end of FY 2011. DLA maintains Internal-Use Software Under Development as a service to the Office of the Under Secretary of Defense (OUSD). Upon completion, DLA transfers the ownership of the developed software to OUSD who designates it to the final organization.

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

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

For 4th Quarter FY 2016, DLA erroneously recorded amortization ($34.0 million) for Internal-Use Software Under Development and CIP ($771.0 thousand) under DLA GF Buildings, Structures and Facilities. Both errors will be corrected in 1st Quarter FY 2017.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 1,820	$ 2,283
Total Intragovernmental Liabilities	$ 1,820	$ 2,283
Nonfederal Liabilities		
Accounts Payable	$ 9,450	$ 9,051
Military Retirement and Other Federal Employment Benefits	4,694	4,839
Environmental and Disposal Liabilities	89,959	142,363
Other Liabilities	3,815	1,790
Total Nonfederal Liabilities	$ 107,918	$ 158,043
Total Liabilities Not Covered by Budgetary Resources	$ 109,738	$ 160,326
Total Liabilities Covered by Budgetary Resources	$ 57,502	$ 66,764
Total Liabilities	$ 167,240	$ 227,090

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.

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

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

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of FECA benefits for $4.7 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	2016		
	Accounts Payable	Interest, Penalities, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 18,557	N/A	$ 18,557
Nonfederal Payables (to the Public)	35,057	$ 4	35,061
Total	$ 53,614	$ 4	$ 53,618

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

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 accounts payable transactions by customer. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by (1) reclassifying amounts between federal and non-federal accounts payable and (2) accruing additional accounts payable (3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

This is not applicable to DLA GF.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2016	2015
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 100,166	$ 117,538
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	$ -	$ 453
Base Realignment and Closure Installations		
Installation Restoration Program	$ -	$ 47,990
Total Environmental Liabilities	$ 100,166	$ 165,981

The DLA Environmental Liabilities (EL) are comprised of two primary elements: (1) existing obligations supporting the Defense Environmental Restoration Account (DERA) and Base Realignment and Closure (BRAC) funded environmental restoration programs, and (2) anticipated future cost to complete (CTC) environmental restoration requirements at DLA's environmental sites. In fiscal year (FY) 2016, DLA utilized Version 11.3 of the Remedial Action Cost Engineering & Requirements (RACER) software to generate the FY 2017 CTC estimates of anticipated future costs. Cost estimates were generated for 75 Defense Environmental Restoration Program (DERP) sites and one BRAC site.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

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

The primary change in site-level estimates from the previous CTC occurred in the FY 2017 CTC and can be primarily attributed to a decrease in Installation Restoration Program (IRP)-Base Realignment and Closure (BRAC) environmental corrective actions due to this EL being accurately reported to the correct Department of Defense (DoD) BRAC appropriation, 97X0516, instead of the Defense Wide Operations and Maintenance (O&M) 0100 appropriation. Additionally, there was a decrease in IRP-Active Installations Environmental Corrective Actions primarily due to a decrease in Program Management costs based on DLA's revised post-FYDP methodology for calculating program management costs, which was implemented in accordance with OSD guidance: Strategy for Environmental and Disposal Liability Audit Readiness (September 30, 2015). Year-to-year fluctuations in DLA's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The latest version of RACER was used to prepare the estimates.

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

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

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

In FY 2016, DLA developed and implemented the Roll Forward process bridging the timing gap between the completion of the annual CTC estimates and September 30 to determine if any significant changes to environmental liabilities have occurred during that timeframe. Based on the results of the roll forward process, it was determined that there were no significant changes to environmental liabilities between the completion of the annual CTC process and September 30. This process is in accordance with OSD memorandum for Strategy for Environmental & Disposal Liabilities Audit Readiness (September 30, 2015).

Additionally, in FY 2016, DLA implemented the EL Site Identification (ID) process that reviews the Agency's Environmental Event Repository and evaluates each event for EL potentiality for use in the annual CTC and EL financial reporting. During the FY 2016 Site ID Process, the sites identified in the table below were identified as Potential ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. These sites will be re-evaluated during the next Site ID process to determine if any changes have taken place and sufficient information/data are available to create an estimate that would be included in the General Fund EL.

INSTALLATION	SITE NAME	CATEGORY	COMMENTS
DLA Disposition Services	Pebble Beach, Inyokern, California	Potential EL	These sites remain as potential EL sites until otherwise determined by DLA's Site ID process.
DLA Disposition Services	Banaire Enterprises, Cabazon, California	Potential EL	
DLA Disposition Services	North Salt Lake Hazmat	Potential EL	
Defense Distribution Depot San Joaquin	SWMU 27	Potential EL	
Defense Distribution Depot Susquehanna	Paint Disposal via Storm Drain by Contractor	Potential EL	
Somerville, NJ	Litgo	Potential EL	
Niagara Falls, NY	Frontier Chemical Waste	Potential EL	
San Antonio, TX	R&H Oil	Potential EL	
Meddybemps, ME	Smith Junkyard	Potential EL	
Raleigh, NC	Ward Transformer	Potential EL	
Rock Hill, SC	Thermalkem	Potential EL	
Social Circle, GA	Cannon Drum (Housel)	Potential EL	
Queens, NY	DMG/Quanta	Potential EL	
San Francisco, CA	Yosemite Creek	Potential EL	
Portsmouth, CA	Peck Iron & Metal	Potential EL	
North Providence, RI	New England Container Company	Potential EL	
Belvidere, IL	Cadie Auto Salvage	Potential EL	
Barstow, CA	Billy Smith	Potential EL	
Terminal Island, CA	South West Marine	Potential EL	

NOTE 15. OTHER LIABILITES

As of September 30	2016		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 108	$ 471	$ 579
Employer Contribution and Payroll Taxes Payable	378	-	378
Other Liabilities	1,241	-	1,241
Total Intragovernmental Other Liabilities	$ 1,727	$ 471	$ 2,198
Nonfederal			
Accrued Funded Payroll and Benefits	$ 1,513	$ -	$ 1,513
Advances from Others	-	440	440
Accrued Unfunded Annual Leave	3,814	-	3,814
Contract Holdbacks	407	-	407
Employer Contribution and Payroll Taxes Payable	390	-	390
Total Nonfederal Other Liabilities	$ 6,124	$ 440	$ 6,564
Total Other Liabilities	$ 7,851	$ 911	$ 8,762

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

Intragovernmental Other Liabilities primarily consists of FECA Reimbursement to the Department of Labor Non-Current Liability, Employer Contribution and Payroll Taxes Payable/Current liability and Other Liabilities, which includes Unemployment Compensation Expenses.

Non-Federal Other Liabilities primarily consist of accruals for Funded Payroll and Benefits Current Liability and Unfunded Annual Leave Current Liability.

NOTE 16. COMMITMENTS AND CONTINGENCIES

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 and Disposal 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.

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 4,694	$ -	$ 4,694
Total Other Benefits	$ 4,694	$ -	$ 4,694
Total Military Retirement and Other Federal Employment Benefits:	$ 4,694	$ -	$ 4,694

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

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2016 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

2.334% in Year 1
2.860% 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) 2016 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2016	2.20%	3.83%
2017	2.20%	3.82%
2018	2.20%	3.82% 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 the agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 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 2016 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 Calculations are Based (Retirement Systems)

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

NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

As of September 30	2016	2015
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 138,675	$ 309,400
Nonfederal Cost	178,811	418
Total Cost	$ 317,486	$ 309,818
Earned Revenue		
Intragovernmental Revenue	$ (14,428)	$ (50,286)
Nonfederal Revenue	-	(901)
Total Revenue	$ (14,428)	$ (51,187)
Total Net Cost	$ 303,058	$ 258,631
Procurement		
Gross Cost		
Intragovernmental Cost	$ -	$ 3
Nonfederal Cost	10,688	9,584
Total Cost	$ 10,688	$ 9,587
Total Net Cost	$ 10,688	$ 9,587
Research, Development, Test & Evaluation		
Gross Cost		
Intragovernmental Cost	$ 25,745	$ 22,510
Nonfederal Cost	214,843	166,318
Total Cost	$ 240,588	$ 188,828
Earned Revenue		
Intragovernmental Revenue	$ (19,169)	$ (26,765)
Nonfederal Revenue	(42)	(932)
Total Revenue	$ (19,211)	$ (27,697)
Total Net Cost	$ 221,377	$ 161,131
Family Housing & Military Construction		
Gross Cost		
Intragovernmental Cost	$ 12,268	$ 12,238
Nonfederal Cost	(21,092)	(95,545)
Total Cost	$ (8,824)	$ (83,307)
Total Net Cost	$ (8,824)	$ (83,307)

As of September 30	2016	2015
(Amounts in thousands)		
Consolidated		
Gross Cost		
Intragovernmental Cost	$ 176,688	$ 344,151
Nonfederal Cost	383,250	80,775
Total Cost	$ 559,938	$ 424,926
Earned Revenue		
Intragovernmental Revenue	$ (33,597)	$ (77,051)
Nonfederal Revenue	(42)	(1,833)
Total Revenue	$ (33,639)	$ (78,884)
Total Net Cost	$ 526,299	$ 346,042

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

The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

DLA reports intragovernmental and public costs and revenue. Intragovernmental cost represents 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.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2016	Dollars in Millions	
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Total
Appropriations, Statement of Budgetary Resources	$	882.4
Appropriations Received, Statement of Changes in Net Position	$	875.9
Total Reconciling Amount	$	6.4
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	6.4
Total Reconciling Items	$	6.4

The $6.4 million reconciling difference between Appropriations of the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position is due to direct program and obligation authority changes for Defense Environmental Restoration Account (DERA) and Counter Drug programs.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands) Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,003,286	$ 1,025,958

The DLA had apportionment categories for Obligations Incurred. Category A and Category B for both Direct and Reimbursable Obligations Incurred. Category A and Category B did not contain Obligations Exempt from apportionment. The table below summarizes the apportionment categories. The summation of the categories is equivalent to Line 2190 on the Statement of Budgetary Resources.

(Amounts in thousands)	**Category A**	**Category B**	**Total**
Direct Obligations Incurred	$ 341,965	$ 653,114	$ 995,079
Reimbursable Obligations Incurred	717	44,796	45,513
Obligations Exempt from Apportionment	-	-	-
Total	$ 342,682	$ 697,910	$ 1,040,592

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

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30	2016	2015
(Amounts in thousands)		
Resources used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 1,040,592	$ 1,126,986
Less: Spending Authority from Offsetting Collections and Recoveries (-)	(197,874)	(130,321)
Obligations Net of Offsetting Collections and Recoveries	$ 842,718	$ 996,665
Net Obligations	$ 842,718	$ 996,665
Other Resources:		
Donations and Forfeitures of Property		
Transfers In/Out without Reimbursement (+/-)	(415,867)	(230,352)
Imputed Financing from Costs Absorbed by Others	2,600	2,687
Other	265,311	1
Net Other Resources used to Finance Activities	$ (147,956)	$ (227,664)
Total Resources used to Finance Activities	$ 694,762	$ 769,001
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 (-)	$ 22,672	$ (135,762)
Unfilled Customer Orders	16,074	2,889
Resources that Fund Expenses Recognized in Prior Periods (-)	(66,149)	(133,051)
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)		-
Other (+/-)	150,557	230,351
Total Resources used to Finance Items not part of the Net Cost of Operations	$ 123,154	$ (35,573)
Total Resources used to Finance the Net Cost of Operations	$ 817,916	$ 733,428
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	$ 160	$ -
Increase in Environmental and Disposal Liability	-	6,360
Other (+/-)	1,991	2,422
Total components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 2,151	$ 8,782

As of September 30	2016	2015
(Amounts in thousands)		
Components not Requiring or Generating Resources:		
Depreciation and Amortization	$ 9,096	$ 27,894
Revaluation of Assets or Liabilities	-	-
Other (+/-)		
Other	(302,864)	(424,062)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ (293,768)	$ (396,168)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ (291,617)	$ (387,386)
Net Cost of Operations	$ 526,299	$ 346,042

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

DLA adjusted the note schedule in the amount of $660,602.49 to bring it into balance with the Statement of Net Cost. The adjustment is reported in Components Not Requiring of Generating Resources.

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

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

Composition of lines titled, "Other"

Resources Used to Finance Activities: Consists of Other Gains and Losses associated with Military Construction (MILCON) Naval Facilities Engineering Command (NAVFAC) ending Construction-In-Progress (CIP) balances.

Components Requiring or Generating Resources in Future Period: Consists of Future Funded Expenses for Accrued Unfunded Annual Leave for Defense Micro-Electronics Activity (DMEA) in Research, Development Test & Evaluation (RDT&E).

Components not Requiring or Generating Resources: Consists of Cost Capitalization Offset associated with reconciliation of interagency expenses and revenues for MILCON.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

This is not applicable to DLA GF.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

This is not applicable to DLA GF.

NOTE 24. FIDUCIARY ACTIVITIES

This is not applicable to DLA GF.

NOTE 25. OTHER DISCLOSURES

This is not applicable to DLA GF.

NOTE 26. RESTATEMENTS

This is not applicable to DLA GF.

Defense Logistics Agency
Transaction Fund
Financial Statements and Footnotes

HIGHLIGHTS OF DLA'S FINANCIAL STATEMENTS FOR FY 2016

DLA prepares the four principal financial statements for its Transaction Fund:

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

The analysis of each statement describes the Transaction Fund results.

In accordance with DoD Reporting Requirements, DLA analyzed variances for Total Assets and Total Liabilities on the Balance Sheet with changes greater than 10% and $2.0 million change or changes greater than 2% of total assets. The analysis also includes changes greater than 10% and $2.0 million change of Net Costs of Operations on the Statement of Net Costs and Total Budgetary Resources and Net Outlays on the Statement of Budgetary Resources. Variances that meet these threshold requirements are explained within 30% percentile in either direction (over and under).

BALANCE SHEET

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

TRANSACTION FUND

Assets

DLA's TF Total Assets increased $690.9 million (97%) primarily due to implementation inventory deemed cost adjustment in accordance with SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", which allows DLA TF to apply an alternative valuation method in establishing beginning balances for inventory.

Liabilities

DLA's TF Total Liabilities decreased $3.0 million (20%) primarily due to a decrease in Environmental Liabilities Cost to Complete Estimate for the soil excavations and ore pile removal.

STATEMENT OF NET COST (SNC)

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

TRANSACTION FUND

DLA's TF Net Cost of Operations decreased $14.8 million (27%) due to a decrease of $39.7 million in Gross Costs less a $24.9 million decrease in Earned Revenue.

Gross Costs decreased primarily due to costs reduction in public law transfers ($9.0 million), material handling ($4.0 million), mobilization studies ($3.0 million), and aggregate of other program expenses ($14.0 million).

Earned Revenue decreased primarily attribute to reduced sales quantities and market prices for stockpile materials related to ferromanganese and chromium ores in FY 2016 ($42.5 million) compared to FY 2015 ($66.9 million).

STATEMENT OF CHANGES IN NET POSITION (SCNP)

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

TRANSACTION FUND

SCNP Analysis is not required for the TF based on the guidelines above.

STATEMENT OF BUDGETARY RESOURCES (SBR)

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

TRANSACTION FUND

SBR Analysis is not required for the TF based on the guidelines above.

Department of Defense - Unaudited
Defense Logistics Agency - National Defense Stockpile Transaction Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2016 and 2015
Amounts in Thousands

	2016 Consolidated	2015 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 247,902	$ 260,118
Total Intragovernmental Assets	$ 247,902	$ 260,118
Accounts Receivable,Net (Note 5)	28	300
Inventory and Related Property,Net (Note 9)	1,152,834	449,257
General Property, Plant and Equipment,Net (Note 10)	1,908	2,131
TOTAL ASSETS	$ 1,402,672	$ 711,806
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 2,335	$ 1,648
Other Liabilities (Note 15 & 16)	237	219
Total Intragovernmental Liabilities	$ 2,572	$ 1,867
Accounts Payable (Note 12)	$ 752	$ 644
Military Retirement and Other Federal Employment Benefits (Note 17)	1,411	1,324
Environmental and Disposal Liabilities (Note 14)	6,463	10,187
Other Liabilities (Note 15 & 16)	702	837
TOTAL LIABILITIES	$ 11,900	$ 14,859
COMMITMENTS AND CONTINGENCIES (Note 16)		
NET POSITION		
Cumulative Results of Operations - Other Funds	$ 1,390,772	$ 696,947
TOTAL NET POSITION	$ 1,390,772	$ 696,947
TOTAL LIABILITIES AND NET POSITION	$ 1,402,672	$ 711,806

The accompany notes are an integral part of the statements.

Department of Defense - Unaudited

Defense Logistics Agency - National Defense Stockpile Transaction Fund

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2016 and 2015

Amounts in Thousands

	2016 Consolidated	2015 Consolidated
Program Costs		
Gross Cost		
Operations, Readiness & Support	$ 54,967	$ 94,623
(Less: Earned Revenue)	(14,607)	(39,462)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	40,360	55,161
Net Program Costs Including Assumption Changes	40,360	55,161
Net Cost of Operations	$ 40,360	$ 55,161

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited
Defense Logistics Agency -National Defense Stockpile Transaction Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2016 and 2015
Amounts in Thousands

	2016 Consolidated	2015 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 696,947	$ 751,653
Prior Period Adjustments:		
Changes in accounting principles (+/-)	733,746	-
Beginning balances, as adjusted	1,430,693	751,653
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others	437	455
Other (+/-)	2	-
Total Financing Sources	$ 439	$ 455
Net Cost of Operations (+/-)	40,360	55,161
Net Change	(39,921)	(54,706)
Cumulative Results of Operations	1,390,772	696,947
Net Position	$ 1,390,772	$ 696,947

The accompanying notes are an integral part of the statements.

Department of Defense - Unaudited
Defense Logistics Agency - National Defense Stockpile Transaction Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2016 and 2015
Amounts in Thousands

	2016 Combined		2015 Combined	
Budgetary Resources				
Unobligated Balance Brought Forward, October 1	$	210,902	$	201,689
Unobligated Balance Brought Forward, October 1, as Adjusted		210,902		201,689
Recoveries of Unpaid Prior Year Obligations		2,782		2,423
Unobligated Balance from Prior Year Budget Authority, Net		213,684		204,112
Spending Authority from Offsetting Collections (discretionary and mandatory)		42,060		76,351
Total Budgetary Resources	$	255,744	$	280,463
Status of Budgetary Resources:				
New Obligations and Upward Adjustments (Total)	$	64,679	$	69,561
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts		28,603		14,407
Unapportioned, Unexpired Accounts		162,462		196,495
Unexpired Unobligated Balance, End of Year		191,065		210,902
Unobligated Balance, End of Year (Total)		191,065		210,902
Total Budgetary Resources	$	255,744	$	280,463
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid Obligations, Brought Forward, October 1	$	22,199	$	27,565
New Obligations and Upward Adjustments		64,679		69,561
Outlays (Gross) (-)		(54,195)		(72,504)
Recoveries of Prior Year Unpaid Obligations (-)		(2,782)		(2,423)
Unpaid Obligations, End of Year		29,901		22,199
Uncollected payments:				
Obligated Balance, Start of Year (+/-)		22,199		27,565
Obligated Balance, End of Year (+/-)	$	29,901	$	22,199
Budget Authority and Outlays, Net:				
Budget Authority, Gross (discretionary and mandatory)	$	42,060	$	76,351
Actual Offsetting Collections (discretionary and mandatory) (-)		(41,979)		(61,460)
Budget Authority, Net (Total) (discretionary and mandatory)		81		14,891
Outlays, Gross (discretionary and mandatory)		54,195		72,504
Actual Offsetting Collections (discretionary and mandatory) (-)		(41,979)		(61,460)
Outlays, Net (Total) (discretionary and mandatory)		12,216		11,044
Agency Outlays, Net (discretionary and mandatory)	$	12,216	$	11,044

The accompanying notes are an integral part of the statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. BASIS OF PRESENTATION

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

Information relative to classified assets, programs, and operations is 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 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 material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury; (3) Inventory; (4) General Property, Plant, and Equipment; (5) Accounts Payable; (6) Intragovernmental Eliminations; (7) and Accounting Entries.

1.B. MISSION OF THE REPORTING ENTITY

Stockpile Materiels, only applicable to and reported by the DLA, are strategic and critical materiels held due to statutory requirements for use in national defense, conservation or national emergencies. Such materials when acquired and stored are collectively known as the National Defense Stockpile (NDS).

The mission of the NDS is to decrease the risk of dependence on foreign suppliers or single suppliers on supply chains of strategic and critical materials used in defense, essential civilian, and essential industry applications.

By executive Order, the Secretary of Defense is designated as the NDS Manager, with management responsibilities delegated to the Under Secretary of Defense for Acquisition, Technology and Logistics. The operational activities of the NDS are delegated to the Director of the DLA.

The DLA SM was established by the DLA as the activity to manage the operations of the NDS program through use of the NDSTF as authorized by Congress.

1.C. APPROPRIATIONS AND FUNDS

Congress established in the Treasury of the United States a revolving fund account known as the NDSTF to be used to fund all operations of the NDS. The DLA SM operates under the authority of the Strategic and Critical Materials Stock Piling Act (50 United States Code §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. The DLA SM administers the acquisition, storage, management, and disposal of the stockpile.

1.D. BASIS OF ACCOUNTING

The DLA financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DLA's sub-entities. 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 continuing 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 able to collect and report financial information as required by USGAAP, there will be instances when the financial data will be derived from nonfinancial feeder systems.

1.E. REVENUES AND OTHER FINANCING SOURCES

DLA SM financing sources are generated through the sale of stockpile materials that have been deemed excess to the needs of the stockpile. Materials are offered for sale on the open market and awarded through competitive bidding. DLA SM recognizes gains for the difference between the sales value and holding cost of the stockpile materials. Sale proceeds are deposited to the NDSTF. DLA SM receives an annual apportionment from OMB as authorized by the congressional appropriations process.

1.F. RECOGNITION OF EXPENSES

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems may not always timely record the financial information on full accrual accounting basis. When necessary, estimates are made for expense amounts. DLA continues to implement process and system improvements to address this limitation based on the guidance.

1.G. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. 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's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

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

1.H. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

This is not applicable to DLA TF.

1.I. FUNDS WITH THE U.S. TREASURY

The DLA SM funds are maintained in the U.S. Treasury account established as the NDSTF. The Defense Finance and Accounting Service Disbursing Office in Columbus, Ohio processes cash collections, disbursements, and adjustments. Third party direct cite transactions may also process to the NDSTF. The U.S. Treasury records transactions affecting the NDSTF Fund Balance with Treasury (FBWT) account. On a monthly basis, the NDSTF FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury accounts.

1.J. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA TF.

1.K. ACCOUNTS RECEIVABLE

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

SM's Account Receivables from the public occur in accordance with contractually permissible over shipment of stockpile material under the sales program. DLA SM has not had uncollectable debt for several years and analysis based on collection experience estimates no allowance for loss.

1.L. DIRECT LOANS AND LOAN GUARANTEES

This is not applicable to DLA TF.

1.M. INVENTORIES AND RELATED PROPERTY

For 4th Quarter, FY 2016, DLA valued its inventory using deemed cost based on the SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance".

Stockpile Materials in the DLA SM are valued at fair value as of September 30, 2016. Stockpile Materials placed into the DLA SM after 4th quarter FY 2016 are valued at historical cost.

The DLA SM values inventory on the basis of historical cost using Moving Average Cost. DLA SM inventory consists of Stockpile Materials Held in Reserve and Stockpile Materials Held For Sale.

1.N. INVESTMENTS IN U.S. TREASURY SECURITIES

This is not applicable to DLA TF.

1.O. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E)

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

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

1.P. ADVANCES AND PREPAYMENTS

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

1.Q. LEASES

This is not applicable to DLA TF.

1.R. OTHER ASSETS

Other assets include those assets, such as military and civil service employee pay advances, and travel advances not reported elsewhere on the DLA SM Balance Sheet.

1.S. CONTINGENCIES AND OTHER LIABILITIES

This is not applicable to DLA TF.

1.T. ACCRUED LEAVE

The DLA SM reports liabilities for accrued compensatory leave, annual leave, restored annual 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, accrued leave is unfunded. In addition, DLA benefits include Medicare and Social Security.

1.U. NET POSITION

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

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

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

1.V. TREATIES FOR USE OF FOREIGN BASES

This is not applicable to DLA TF.

1.W. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. DLA SM performs a monthly adjustment to its financial records to account for undistributed collections and disbursements.

1.X. FIDUCIARY ACTIVITIES

This is not applicable to DLA TF.

1.Y. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

DoD 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 Note18, General Disclosures Related to the Statement of Net Cost, for additional information.

1.Z. SIGNIFICANT EVENTS

This is not applicable to DLA TF.

NOTE 2. NONENTITY ASSETS

As of September 30	2016	2015
(Amounts in thousands)		
Total Entity Assets	$ 1,402,672	$ 711,806
Total Assets	$ 1,402,672	$ 711,806

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

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2016	2015
(Amounts in thousands)		
Fund Balances		
Revolving Funds	$ 247,902	$ 260,118
Total Fund Balances	$ 247,902	$ 260,118
Fund Balances Per Treasury Versus Agency		
Fund Balance per Treasury	$ -	$ -
Fund Balance per DLA	247,902	260,118
Reconciling Amount	$ (247,902)	$ (260,118)

DLA Transaction Fund shows a $247,901,892.54 reconciling net difference with the United States (U.S.) Treasury. The United States Treasury maintains and reports fund balances at the Treasury Index (TI) appropriation level. Defense Agencies, to include the DLA Transaction Fund, are included at the TI 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the United States Treasury does not separately report an amount for the DLA Transaction Fund and, therefore, the entire DLA Transaction Fund's Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount.

STATUS OF FUND BALANCE WITH TREASURY

As of September 30	2016	2015
(Amounts in thousands)		
Unobligated Balance		
Available	$ 28,603	$ 14,407
Unavailable	189,397	223,512
Obligated Balance not yet Disbursed	$ 29,902	$ 22,199
Total	$ 247,902	$ 260,118

The Status of Fund Balance with Treasury (FBWT) 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. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated Balance not yet disbursed represents funds that have been obligated for goods and services but not paid.

NOTE 4. INVESTMENTS AND RELATED INTEREST

This is not applicable to DLA TF.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30	2016		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ -	N/A	$ -
Nonfederal Receivables (From the Public)	28	$ -	28
Total Accounts Receivables	$ 28	$ -	$ 28

As of September 30	2015		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ -	N/A	$ -
Nonfederal Receivables (From the Public)	300	$ -	300
Total Accounts Receivables	$ 300	$ -	$ 300

Accounts receivable represent the DLA's claim for payment from other entities. 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.

SM's Account Receivables from the public occur in accordance with contractually permissible over shipment of stockpile material under the sales program. DLA SM has not had uncollectable debt for several years and analysis based on collection experience estimates no allowance for loss.

NOTE 6. OTHER ASSETS

This is not applicable to DLA TF.

NOTE 7. CASH AND OTHER MONETARY ASSETS

This is not applicable to DLA TF.

NOTE 8. DIRECT AND LOAN GUARANTEES

This is not applicable to DLA TF.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30	2016	2015
(Amounts in thousands)		
Stockpile Materiel, Net	$ 1,152,834	$ 449,257
Total	$ 1,152,834	$ 449,257

For 4th Quarter, 2016, DLA TF inventory is valued at Fair Market Value in accordance with implementation of the SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials guidance", uses Deemed Cost as an acceptable valuation method for establishing opening balances for inventory in the reporting period in which the reporting entity makes an unreserved assertion. DLA does not make an unreserved assertion for its inventory balances.

STOCKPILE MATERIEL, NET

As of September 30	2016			
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
(Amounts in thousands)				
Stockpile Materiel Categories				
Held for Sale	$ 4,246	$ -	$ 4,246	AC, MAC
Held in Reserve for Future Sale	1,148,588	-	1,148,588	AC, MAC
Total	$ 1,152,834	$ -	$ 1,152,834	

As of September 30	2015			
	Stockpile Materiel Amount	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
(Amounts in thousands)				
Stockpile Materiel Categories				
Held for Sale	$ 6,764	$ -	$ 6,764	AC, MAC
Held in Reserve for Future Sale	442,493	-	442,493	AC, MAC
Total	$ 449,257	$ -	$ 449,257	

Legend for Valuation Methods:	
AC = Actual Cost	MAC = Moving Average Cost

NOTE 10. GENERAL PP&E, NET

As of September 30	2016				
	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	$ 570	$ (570)	$ -
General Equipment	S/L	Various	2,444	(536)	1,908
Total General PP&E			$ 3,014	$ (1,106)	$ 1,908

As of September 30	2015				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
General Equipment	S/L	Various	$ 2,560	$ (429)	$ 2,131
Total General PP&E			$ 2,560	$ (429)	$ 2,131

Legend for Depreciation / Amortization Method:

S/L = Straight Line

During FY 2016, in accordance with SFFAS No. 35, "Estimating the Historical Cost of General Property, Plant, and Equipment", DLA used Deflated Property Replacement Value method to value fully depreciated Real Property (Buildings, Structure, and Facilities). The implementation of SFFAS No. 35, resulted in a $570.0 thousand increase in the assets value and accumulated depreciation for Building, Structure and Facilities.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 35	$ 33
Total Intragovernmental Liabilities	$ 35	$ 33
Nonfederal Liabilities		
Accounts Payable	$ -	$ -
Military Retirement and Other Federal Employment Benefits	1,411	1,324
Environmental and Disposal Liabilities	5,645	9,224
Other Liabilities	525	519
Total Nonfederal Liabilities	$ 7,581	$ 11,067
Total Liabilities Not Covered by Budgetary Resources	$ 7,616	$ 11,100
Total Liabilities Covered by Budgetary Resources	$ 4,284	$ 3,759
Total Liabilities	$ 11,900	$ 14,859

The DLA TF 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.

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

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

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consist 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 $1.4 million.

NOTE 12. ACCOUNTS PAYABLE

As of September 30	2016		
	Accounts Payable	Interest, Penalities, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 2,335	N/A	$ 2,335
Nonfederal Payables (to the Public)	752	$ -	752
Total	$ 3,087	$ -	$ 3,087

As of September 30	2015		
	Accounts Payable	Interest, Penalities, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 1,648	N/A	$ 1,648
Nonfederal Payables (to the Public)	644	$ -	644
Total	$ 2,292	$ -	$ 2,292

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA systems do not track all intragovernmental accounts payable transactions by customer. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by (1) reclassifying amounts between federal and non-federal accounts payable and (2) accruing additional accounts payable (3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

This is not applicable to DLA TF.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2016	2015
(Amounts in thousands)		
Environmental Liabilities--Nonfederal		
Other Accrued Environmental Liabilities—Non-BRAC		
Other	$ 6,463	$ 10,187
Total Environmental Liabilities	$ 6,463	$ 10,187

The DLA Strategic Materials (DLA SM) Environmental Liabilities (EL) for the Transaction Fund (TF) are comprised of two primary elements: (1) existing obligations supporting Non-BRAC Corrective Action costs, Non-BRAC Closure Requirement costs, including site-related and Program Management costs, and (2) anticipated future cost to complete (CTC) environmental restoration requirements at DLA SM environmental sites. In FY 2016, DLA utilized Version 11.3 of the Remedial Action Cost Engineering & Requirements (RACER) software to generate the fiscal year (FY) 2017 CTC estimates of anticipated future costs. Cost estimates were generated for seven Non-BRAC Corrective Action sites and seven Non-BRAC Closure Sites.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

The DLA SM is responsible for clean-up requirements of Non-BRAC Installations in which they conduct their operations, in the past or present. All clean-up is conducted in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

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

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

The primary change in site-level estimates from the previous CTC occurred in the FY 2017 CTC and can be primarily attributed to the decrease in the dimensions of soil excavations that are expected to be required as part of site close-out after ore piles have been removed at the Hammond Depot Ore Storage Site and the Wenden Depot Right of Way site. Year-to-year fluctuations in DLA SM's ELs are expected due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The latest version of RACER was used to prepare the estimates.

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

The cost estimates produced through the CTC process are considered accounting estimates, which require the Program Managers to make reasonable professional judgments and assumptions based upon information available at the time the 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 SM, along with DLA, has instituted extensive controls to ensure that these estimates are accurate and reproducible. Due to the inherent uncertainty involved with environmental contamination and associated remedial actions, RACER, as a parametric cost estimating tool, is used as a preliminary order of magnitude estimate. The stated total liability includes prior year obligations and the estimate of future costs necessary to complete the environmental restoration requirements.

Additionally, in FY 2016, DLA implemented the EL Site Identification (ID) process that reviews the Agency's Environmental Event Repository and evaluates each event for EL potentiality for use in the annual CTC and EL financial reporting. During the FY 2016 Site ID Process, the sites identified in the table below were identified as Potential ELs due to the lack of sufficient information/data or pending additional corrective or closure actions. These sites will be re-evaluated during the next Site ID process to determine if any changes have taken place and sufficient information/data are available to create an estimate that would be included in the Transaction Fund EL.

DLA Transaction Fund Potential EL Sites:

INSTALLATION	SITE NAME	CATEGORY	COMMENTS
DNSC Warren	Large, PA Manganese and Fluorspar Area	Potential EL	This site remains as a potential EL site until otherwise determined by DLA's Site ID process.

NOTE 15. OTHER LIABILITIES

As of September 30	2016		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 139	$ 35	$ 174
Employer Contribution and Payroll Taxes Payable	63	-	63
Total Intragovernmental Other Liabilities	$ 202	$ 35	$ 237
Nonfederal			
Accrued Funded Payroll and Benefits	$ 170	$ -	$ 170
Advances from Others	6	-	6
Accrued Unfunded Annual Leave	526	-	526
Total Nonfederal Other Liabilities	$ 702	$ -	$ 702
Total Other Liabilities	$ 904	$ 35	$ 939

As of September 30	2015		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 134	$ 33	$ 167
Employer Contribution and Payroll Taxes Payable	52	-	52
Total Intragovernmental Other Liabilities	$ 186	$ 33	$ 219
Nonfederal			
Accrued Funded Payroll and Benefits	$ 155	$ -	$ 155
Advances from Others	163	-	163
Accrued Unfunded Annual Leave	519	-	519
Total Nonfederal Other Liabilities	$ 837	$ -	$ 837
Total Other Liabilities	$ 1,023	$ 33	$ 1,056

Intragovernmental Other Liabilities primarily consists of FECA Reimbursement to the Department of Labor Current Liability and Employer Contribution and Payroll Taxes Payable/Current liability.

Non-Federal Other Liabilities primarily consist of accruals for Funded Payroll and Benefits Current Liability and Unfunded Annual Leave Current liability.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Environmental Contingencies

The DLA SM 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 and Disposal 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.

NOTE 17. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2016		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 1,411	$ -	$ 1,411
Total Other Benefits	$ 1,411	$ -	$ 1,411
Total Military Retirement and Other Federal Employment Benefits:	$ 1,411	$ -	$ 1,411

As of September 30	2015		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
Other Benefits			
FECA	$ 1,324	$ -	$ 1,324
Total Other Benefits	$ 1,324	$ -	$ 1,324
Total Military Retirement and Other Federal Employment Benefits:	$ 1,324	$ -	$ 1,324

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2016 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

2.334% in Year 1
2.860% 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) 2016 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2016	2.20%	3.83%
2017	2.20%	3.82%
2018	2.20%	3.82% 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 the agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2016 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 2016 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 Calculations are Based (Retirement Systems)

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

NOTE 18. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

As of September 30	2016	2015
(Amounts in thousands)		
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	$ 11,192	$ 18,673
Nonfederal Cost	43,775	75,950
Total Cost	$ 54,967	$ 94,623
Earned Revenue		
Intragovernmental Revenue	$ -	$ -
Nonfederal Revenue	(14,607)	(39,462)
Total Revenue	$ (14,607)	$ (39,462)
Total Net Cost	$ 40,360	$ 55,161
Consolidated		
Gross Cost		
Intragovernmental Cost	$ 11,192	$ 18,673
Nonfederal Cost	43,775	75,950
Total Cost	$ 54,967	$ 94,623
Earned Revenue		
Intragovernmental Revenue	$ -	$ -
Nonfederal Revenue	(14,607)	(39,462)
Total Revenue	$ (14,607)	$ (39,462)
Total Net Cost	$ 40,360	$ 55,161

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

The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

DLA reports intragovernmental and public costs and revenue. Intragovernmental cost represents 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.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

This is not applicable to DLA TF.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2016	2015
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 26,543	$ 19,566

The DLA TF had Apportionment Category B – Reimbursable Obligations Incurred. Category A did not contain any Direct Obligations Incurred, Reimbursable Obligations Incurred, or Obligations Exempt from Apportionment. Category B did not contain any Direct Obligations Incurred or Obligations Exempt from Apportionment. The table below summarizes the apportionment categories.

(Amounts in thousands)	Category A	Category B	Total
Direct Obligations Incurred	$ -	$ -	$ -
Reimbursable Obligations Incurred	-	64,679	64,679
Obligations Exempt from Apportionment	-	-	-
Total	$ -	$ 64,679	$ 64,679

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

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As of September 30	2016	2015
(Amounts in thousands)		
Resources used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 64,679	$ 69,561
Less: Spending Authority from Offsetting Collections and Recoveries	(44,761)	(63,883)
Obligations Net of Offsetting Collections and Recoveries	$ 19,918	$ 5,678
Net Obligations	$ 19,918	$ 5,678
Other Resources:		
Donations and Forfeitures of Property	-	-
Transfers In/Out without Reimbursement	-	-
Imputed Financing from Costs Absorbed by Others	437	455
Other	2	-
Net Other Resources used to Finance Activities	$ 439	$ 455
Total Resources used to Finance Activities	$ 20,357	$ 6,133
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	$ (6,977)	$ 7,294
Unfilled Customer Orders	(156)	9
Resources that Fund Expenses Recognized in Prior Periods (-)	(3,724)	(11,579)
Resources that Finance the Acquisition of Assets	-	-
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	-	-
Other	-	-
Total resources used to Finance Items not part of the Net Cost of Operations	$ (10,857)	$ (4,276)
Total resources used to Finance the Net Cost of Operations	$ 9,500	$ 1,857
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	$ 6	$ 12
Increase in Exchange Revenue Receivable from the Public (-)	272	10
Other (+/-)	190	-
Total components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 468	$ 22

As of September 30	2016	2015
(Amounts in thousands)		
Components not Requiring or Generating Resources:		
Depreciation and Amortization	$ 792	$ 93
Revaluation of Assets or Liabilities (+/-)	29,600	53,193
Other (+/-)		
Other	-	(4)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 30,392	$ 53,282
Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 30,860	$ 53,304
Net Cost of Operations	$ 40,360	$ 55,161

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

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

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

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

This is not applicable to DLA TF.

NOTE 23. FUNDS FROM DEDICATED COLLECTIONS

This is not applicable to DLA TF.

NOTE 24. FIDUCIARY ACTIVITIES

This is not applicable to DLA TF.

NOTE 25. OTHER DISCLOSURES

This is not applicable to DLA TF.

NOTE 26. RESTATEMENTS

This is not applicable to DLA TF.

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 and U.S. Transportation Command (USTRANSCOM) to overcome distribution difficulties. Additionally, worked with TRANSCOM and DLA-Transportation to develop a Transportation Dashboard that provides a "close watch" for critical CL I containers. This capability continues to develop.
- Continued to support regional economic growth in Afghanistan and Iraq through procurement of produce, bottled water and local market ready goods by the SPV.
- 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 and expanded support in 2016 for the evolving DoD mission.

- Provided shipments of beans, tomato paste, rice, flour, sugar, cooking oil and tea via SPV to 33,000 Peshmerga military personnel in support of a larger Secretary of Defense initiative to provide logistical support to the Kurdish Peshmerga operating in Iraq.

- Partnered with Army and Air Force Exchange Services (AAFES) and the SPV for Iraq to provide delivery of AAFES products to two sites in Iraq alleviating their distribution issue.

- Avian Flu outbreaks in Indiana, resulted in a ban of US raw poultry products in Korea. DLA TS Pacific used a BPA with a Korean vendor that sourced raw poultry locally which was augmented with cooked poultry products from the US to meet the customers' needs.

- Continued to support non-traditional customers through the sale of Humanitarian Daily Rations (HDR) to the Federal Emergency Management Agency (FEMA) for stocking in their Outside the Continental Unites States (OCONUS) distribution centers. Maintained commercial shelf-stable meal BPAs for immediate support during FEMA responses.

- Expanded support of the United States Department of Agriculture's School Lunch Program through sales of Fresh Fruits and Vegetables to 48 out of 50 states.

- Continued providing support to U.S. Forest Service firefighters with MRE and bottled water support.

- Participated in the annual NORTHCOM/FEMA disaster preparedness exercise, Ardent Sentry (AS) 2016, which focused on a Cascadia Subduction Zone (CSZ) scenario.

- Expanded support of the Warfighter in African Command (AFRICOM) including deliveries to sites in Niger, Cameroon, Kenya and Uganda.

- Alternate plan developed, in lieu of Panama SPV platform, to support customers operating in South and Central America with SPV, FF&V, bottled water and OPRATs through BPAs and existing contracts.

- 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).

- Coordinated with the United States Air Force, United States Marine Corps (USMC) representatives on critical changes to the quantity, composition and locations of USMC War Reserve material. This coordination culminated in a new PBA and stock realignment IAW the new requirements.

- 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 AND TEXTILES):

- Joint Service Instruction 4235.18 : Special Measurement Clothing and Footwear, Guidons, Streamers, and Flags Joint Service Regulation 4140.34 : Introduction of New C&T Items into the DoD Supply System.

- Provided Concept of Logistics Support, Logistics Sustainability Analyses and Annex D inputs on NORTHCOM, PACOM and STRATCOM OPlans reflecting DLA's abilities to support the COCOM under specified mission circumstances.

- Collaborating the ongoing Enhanced Small Arms Protective Inserts (ESAPI) Recall for defective plates.

- Supported Operation United Assistance with over $6.4 million in Class II commodities.

- Provided Humanitarian Aid for Iraq and Syrian refugees ($40.0 million).

- Providing ongoing Class II support for Operation Inherent Resolve.

- AFGHAN Army/Police Support ($128.0 million).

- Provided reach back support for EXERCISES Ardent Sentry 2016, Disaster Support Exercise 2016, & Turbo Challenge 2016.

- Participated in the order fulfilment training COOP with C&T CAS personnel.

- Accomplished monthly ESORTS Reports based on supply chain analysis of readiness factors.

- Monitored C&T Feedback e-mail box and fielded over 80 queries from customers on our supply chain processes, policy, and general information.

CLASS IV (CONSTRUCTION AND EQUIPMENT):

- Supported United States Agency for International Development (USAID) in its mission to acquire $150.0 million of lifesaving products for 3.1 million Internally Displaced Persons (IDPs) in Iraq and Syria, in addition to 1.7 million refugees fleeing the region.

- Fully engaged with the Wildland Fire Protection Program (WFPP) for unprecedented support in fighting wildfires in the United States. The Fire and Emergency Service (FES) Program has responded to a plethora of emergency orders from the Department of Interior Bureau of Land Management, the USDA FS Gila National Forest and the USDA Forest Service covering 6 geographical regions in the United States. The orders were for items that ranged from retaining fire hose bands to flame resistant Aramid pants.

- Partnered with the FEMA to support disasters and emergencies in the United States. Established contracts with industry partners to provide delivery of generators and miscellaneous Bill of Materials (BoMs) of multiple sizes and capacities to locations designated by HQ FEMA. This action will mitigate any generator shortfall that a FEMA region may experience.

- Expanded itemized support of key components for CENTCOM from the original Iraq Train & Equip (T&E) missions through partnerships with the United States Army Security Assistance Command (USASAC) and the Communication Electronics Command (CECOM).

- Continued to engage the COCOMs to optimize sustainment and planning through constant dialogue with Joint Logistics Operations Center (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.

- Actively engaged the Warfighter via DLA Support Team members to gain knowledge and insights into their needs/requirements in order to provide improved support. Positive relationship that produced critical requirements for the Warfighter's mission success.

- Restructured the CLIV Executive Agent (EA) office. All of the CLIV EA actions have been transferred to DLA Troop Support Construction and Equipment (C&E) Directorate in Philadelphia. C&E has been an active stake holder in this process and remains poised to provide CL IV EA support.

- Completed the re-write of the Department of Defense Directive (DoDD) 5101.12E. This action drastically increased the scope of the CLIV environment. CLIV is now defined as all construction and barrier material.

- Initiated a review of the Department of Defense Instruction (DODI) that accompanies the DODD 5101.12E. This review will define actions for the services as per the new definition of CLIV.

- Participated in AS 16 which was a comprehensive exercise involving CSZ Scenario which affects a majority of the West Coast of the United States. The exercise was headed by NORTHCOM.

- Entrenched in TRANSCOMs Global Distribution Working Group to enhance Warfighter support at all venues. In-Transit-Visibility (ITV) is the on-going focus to allow the Warfighter to have detailed information at any time and greatly assist in forecasting critical CLIV material.

- Continued a key engagement by facilitating at the Joint Engineer Operations Course (JEOC). Provides a unique venue to work with Engineers from all of the services and gain access to planning events.

- Embedded in the Special Operations Command (SOCOM) Tranche support.

- Fully engaged in Audit Readiness. Concerns are being flagged and addressed via process change as needed.

- Constant review of Logistical Supportability Analysis matrices based off of COCOM Operation Plans. TSPs reviewed for process shortfalls that can trigger Class IV shortfalls. Finished a comprehensive CL IV process flow in support of the DLA Headquarter's Logistics Supportability Analysis Continuous Improvement Process effort. Applied the revised Logistics Supportability Analysis (LSA) to the PACOM OPLAN review.

CLASS VIII (MEDICAL MATERIAL AND FUNCTIONAL EXECUTIVE AGENT MEDICAL SUPPORT (FEAMS)):

Medical Materiel

- DLA Troop Support Medical continued to engage the COCOMs 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 STRATCOM, PACOM, AFRICOM, EUCOM, NORTHCOM, SOUTHCOM, SOCOM and CENTCOM. Provided Logistics Sustainability Analyses for Combatant Commands when required. Of particular note this fiscal year:

    - Provided Support to CENTCOM for the humanitarian relief efforts in Iraq and Syria. Provided roughly $20.0 million in medical materiel support for the Department of State and USAID in support of Iraq, Jordan, Lebanon and Syria. Supported the United States Army Security Assistance Command (USASAC) Afghanistan National Army/Afghanistan National Police Foreign Military Sales (FMS) cases with approximately $99.0 million of medical materiel to include pharmaceuticals and medical-surgical items with and expectation to provide another $70.0 million beginning in FY 2017.

    - Participated monthly CENTCOM Medical Logistics Synchronization meetings. Purpose is to discuss the Medical Logistics posture throughout the Area of Responsibility (AOR).

    - Participated in the monthly NORTHCOM Class VIII Work Group, which covers the Class VIII concept of support for the NORTHCOM AOR with emphasis on Defense Support of Civil Authorities (DSCA). Attended the NORTHCOM Medical Logistics Summit which focused on Defense Support to Civil Authorities (DSCA) in a CSZ scenario. Provided DLA concept of support and information on the Medical Contingency Requirements Workflow (MCRW) planning tool.

    - Participated in PACOM Medical Logistics Workshop in Japan. Discussed customer concerns regarding DLA support, briefed DLA Concept of Logistical Support during the Rehearsal of Concepts drill for one of their high priority plans secret plans.

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

- DLA Troop Support Medical, in coordination with its Department of Defense (DoD) partners and other Federal stakeholders, contributed to the entry of the medical commodity into the Federal Category Management Program, a Presidential initiative. Category Management is the Federal organizing principle for the management of government spending for common goods and services. The objective of the initiative is to use a systematic and disciplined approach to managing the combined medical category spend like a strategic business unit with its own distinct set of strategies to drive greater value.

FEAMS program

DLA Troop Support Medical, in coordination with Defense Health Agency and the Military Services continued to support development of MCRW tool in FY 2016. The primary focus and major accomplishments were developing and fielding new MCRW Release 4.1 capabilities that enable:

- DLA Readiness Contracts management team direct access to Service and COCOM Medical Contingency File (MCF) data and all related value-added information via a single user interface to perform analysis of current readiness posture.

- Means to compare the Service planned capability to clinically-generated Materiel Item Estimate (MIE) outputs to assess mission-to-capability shortfalls and enable users to tailor baseline data to develop their final MIE.

- Capability to identify and analyze potential sustainment optimization gaps over time by comparing the MCRW MIE output against the Theater Lead Agent for Medical Materiel (TLAMM) and Master Ordering Facility (MOFs) capabilities.

- Capability to capture medical materiel planning pedigree information by tracking any individual or collaborative decisions/adjustments made in the MCRW project.

- Capability to derive improved transportation and cost estimates for the planned or contingency operations.

- Capability to identify and recommend standardized clinical materiel alternatives which are more commercially available to improve the Service readiness posture and provide means to reduce the overall supply chain costs.

Complementary to the new MCRW capability development efforts, the FEAMS team collaborated with the Services to accomplish the following activities:

- Institutionalized the DML Readiness Sustainment Metrics program, which was formally approved by the FEAMS' functional proponent, the Defense Medical Logistics Proponent Committee (DMLPC). The metrics program provides DML leadership visibility into the Service's go-to-war requirements; enables DML to assess its contingency readiness posture by assessing the range and depth of its current acquisition strategies relative to forecasted demand; and, it also enables assessment of the TLAMM ability to meet the forecasted demand.

- Assisted the Service Medical Logistics Agencies to submit their "go-to-war" surge and sustainment requirements.

- Enabled and deployed Joint Deployment Formulary (JDF), Version 2, SharePoint application to all four services of the U.S. military. The JDF represents a core list of pharmaceutical items that are required for theater-level care for the first 30 days of contingency operations.

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

- Participated in the 2016 Air Force TLAMM Summit to provide MCRW training, address challenges, and identify issues that hinder medical logistics mission support by the Air Force's Medical Operations Agency (AFMOA).

- Provided MCRW training to Logistics Analysts from the Marine Corp Systems Command (MCSC) and enabled them the ability to view critical NSN characteristics to optimize materiel in Marine Authorized Medical Allowance Lists (AMALs).

- Supported the MEDLOG planner from the Chemical Biological Incident Response Force (CBIRF), a unique Chemical, Biological, Radiological, Nuclear and Enhanced Conventional Weapons (CBRNE) USMC unit, to facilitate planning and MEDLOG requirements for unit specific medical assemblages.

- Provided the MCRW application demo to the Capability Development Dept. of the Army (Combat Developers) to showcase MCRW's capabilities and elicit new requirements. By utilizing MCRW, the medical expert panels will receive a leaner, more repeatable, and updated medical materiel outcome for a stream of expected patients (range and depth). With MCRW's logistics support capability, the planners will be able to proactively evaluate shortfalls, determine the commercial / contractual availability of materiel, or identify new products that need to be cataloged.

- Supported the European Reassurance Initiative by providing data for Humanitarian Missions in the Ukraine. Using MCRW, FEAMS produced medical materiel estimates for lower extremity injuries to include the consumable requirements and the estimated cost per injury.

- Provided an overview of the FEAMS and MCRW tool training to the Army Medical Readiness Training Command at the Army Medical Department (AMEDD) Center and School. Army Logisticians were trained in using MCRW to generate Class VIIIA medical materiel support requirements for Combat, Humanitarian Assistance (HA), and Disaster Relief (DR) missions. Training areas also included: assemblage design, development and modernization processes, integration of Clinically Derived Standardized Products (CDSP), replacement of terminal items, determination of acquisition supportability, reduction of Service unique line items across similar medical capabilities, and the analysis of TLAMM sustainability.

- Supported Air Force Surgeon General to provide MCRW training to the Air Force's Manpower Equipment Force Package (MEFPAK) Responsible Agency (MRA). The MEFPAK MRA is responsible for designing the Air Force's medical assemblages. The FEAMS team showcased MCRW ability to support assemblage design, development and modernization processes, integration of CDSP, replacement of terminal items, determination of acquisition supportability, reduction of Service unique line items across similar medical capabilities, and the analysis of TLAMM sustainability.

- Demonstrated the MCRW tool to the Military Sealift Command, the Navy Warfare Development Command, and United States Naval Ship (USNS) Comfort Supply Officers. Discussion centered on the means by which MCRW tool can be leveraged to develop Class VIII requirements, perform sourcing, and sustainability analysis to support Humanitarian Assistance missions supported by the USNS Comfort.

- Participated in the first U.S. Pacific Command Medical Logistics Workshop at Kadena Air Force Base, Japan. This workshop was hosted by the TLAMM - Pacific and enabled leadership throughout the PACOM theater to look at the mission requirements and determine the best way to overcome operational constraints from a joint perspective.

INITIATIVES AND ACCOMPLISHMENTS FOR FY 2016

DLA PERFORMANCE BASED LOGISTICS CENTER OF EXCELLENCE STRATEGY

The DLA PBL Office was realigned from J34 to J32 by the DLA Director on November 2, 2015 to provide oversight, guidance, and policy coordination for the Agency's PBL efforts. In support of the Director's Strategic Plan Implementation Guidance, a matrixed PBL working group was established in January 2016 to integrate and synchronize PBL initiatives across the Agency. The May 18, 2016 Executive Board approved the DLA Strategy to "Establish the Agency as a PBL/Sustainment Center of Excellence for DoD offering full suite of DLA capabilities." This strategy will be a multi-year effort to transition the Agency's transactional business model to an operational and performance outcome based business model and will be applied to traditional and non-traditional PBL arrangements established within each of the Agency's supply chains.

ENTERPRISE SEGREGATION OF DUTIES (ESOD)

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

All DLA Enterprise Systems including DoD business systems must be audit compliant. As part of the DLA-wide audit readiness effort, an enterprise need was identified to standardize access control processes for DLA systems, with a specific focus on minimizing violations to the segregation of duties principle, and providing an audit trail when violations do exist. J62 Program Executive Office has a requirement to ensure all DLA and DoD Systems across the Enterprise adhere to the Audit mandate to have clean audit opinions to pass FISCAM and Internal Controls – A-123 audits.

In FY 2016, to ensure SoD compliance at the Enterprise Level and J6 specifically, the ESoD PMO produced in coordination with all EBCOs, the DLA Information Technology (IT) Implementation of ESoD (DLAI 7600.02) which establishes policy, implements procedures, and assigns responsibilities to manage and deliver an effective SoD program. The ESoD PMO also established DLAI 7600.02.01 – SoD Acceptance of Risk SOP, which assigns responsibilities and provides SoD risk acceptance procedures for all J6 Program Managers that have J6 roles with unmitigated SoD violation(s) due to operational or resource constraints. In addition, the ESoD PMO completed the SoD Internal Controls Over Financial Systems (ICOFS) Testing for the 11 FY 2016 Audit Systems in preparation for DLA's annual Statement of Assurance. In conclusion, all FY 2015 SoD CAPs related to the FY 2015 IT General Controls assessments were closed and remaining Phase 1.1 Production Legacy Roles (containing SoD violations) were removed from the SoD Enterprise Business System.

FEDERAL LOGISTICS INFORMATION SYSTEM (FLIS)

In FY 2016, WebFLIS expanded its capabilities to perform searches for weapons systems, bill of material, and medical information, as well as provided advanced drill-down capabilities for characteristics data. Clear text NSN summaries were incorporated and described key attributes about the item in a common language so that the user can quickly understand information about the queried item. Finally, the phased release implemented export capabilities for NSN and part number, the ability to print screening results for multiple NSNs, and provided for the display of vendor data.

MANAGEMENT HEADQUARTERING ACTIVITIES

Delayering Initiative - DLA's Program Integration/Corporate Support Team (J872), working with DLA Human Resources (J1), implanted the OSD Delayering Initiative. This initiative seeks to reduce organizational levels, improve supervisory ratios, reduce same-grade reporting, and implement a 25% Major Headquarters Activity (MHA) reduction. DLA is already within guidance regarding organizational levels and, while already limited within the Agency, we are taking steps to further reduce same-grade reporting. By eliminating and/or realigning 20% or 722 supervisory positions to non-supervisors, our supervisory ratio will improve from 1:8 to the 1:10 ratio directed in the Delayering Initiative. The 25% MHA reduction requires us to eliminate an additional 269 civilian and military positions within our headquarters activities by Fiscal Year 2020.

Essential Task List (ETL) Initiative-Full Time Equivalent (FTE) Reductions due to historic FTE under-execution, Resource Management Decision (RMD) 700A2, reduced DLA Supply Chain Management FTEs by 1,000 beginning in Fiscal Year 2017, along with the corresponding Budget Authority of $95M. In addition, Joint Contingency Acquisition Support Office (JCASO) was reduced by 34 FTEs ($5.5M) and RMD 700A1 reduced Major Headquarters Activities (MHA) FTEs by 246 ($37M). In order to identify, along with the strategy to meet the reductions, DLA's Program Integration/Corporate Support Team (J872) began a series of briefings to the DLA, Vice Director on April 12. All DLA organizations identified as a MHA were required to provide a detailed assessment of their organization, using a standard ETL Task methodology using a Red, Yellow and Green Categorization. Tasks considered “Red” are those that are required by Statute, Policy, Regulation or Directive from higher authority above DLA. “Yellow are those that are required by DLA Policy, Regulation or Instruction. “Green” are all other tasks such as internal office reports. For Non-MHA organization, the ETL assessment was not required if the assigned reductions could be taken, however; impact statements were required. All briefings and call-back with the Vice Director were completed on May 20 with very limited relief. Final briefs to the DLA Director took place on June 3 and June 6, culminating with his approval on the J8 ETL approach and all final decisions incorporated into the Program Budget Review 2018-2022 End Game.

ACRONYMS	
A/F/D	Airport/ Facility/ Directory
AAFES	Army and Air Force Exchange Services
AAS	Annuitant Account Statements
AC	Access Control
ADPE	Automated Data Processing Equipment
AECA	Arms Export Control Act of 1976
AERO/NAV	Aeronautical Navigation
AFR	Annual Financial Report
AFMOA	Air Force Medical Operations Agency
AFRICOM	African Command
AIRAC	Aeronautical Information Regulation and Control
ALC	Air Logistics Center
ALT	Acquisition Lead Time
AMAL	Authorized Medical Allowance List
AMEDD	Army Medical Department
AOP	Annual Operating Plan
AOR	Area of Responsibility
APL	Acceptable Performance Level
AS	Application Security
AS	Ardent Sentry
AT&L	Acquisition, Technology, and Logistics
AWARS	Automated Workflow and Reporting System
BBL	Barrels
BOs	Backorders
BOMs	Bill of Materials
BPC	Business Process Controls
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CBIRF	Chemical Biological Incident Response Force
CBRNE	Chemical, Biological, Radiological, Nuclear and Enhanced Conventional Weapons
CBY	Charge Back Year
CDSP	Clinically Derived Standardized Products
CECOM	Communication Electronics Command
CENTCOM	Central Command
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CES	Customer Engagement Strategy

CEW	Civilian Expeditionary Workforce
CFO	Chief Financial Officer
CIC	Customer Interaction Center
CIP	Construction In-Progress
CM	Configuration Management
COCOM	Combatant Command
COLA	Cost of Living Adjustment
CONUS	Contiguous United States
COPA	Center of Parts Activity
CP	Contingency Planning
CPI	Continuous Process Improvement
CPIM	Consumer Price Index Medical
CPVO	Controlled Property Verification Office
CRM	Customer Relationship Management
CSRS	Civil Service Retirement System
C&T	Clothing and Textiles
CSZ	Cascadia Subduction Zone
CTC	Cost to Complete
CV4L	Commercial Venture 4 Liquidation
CV4R	The Commercial Venture 4 Rolling Stock
D2	Distribution/Disposition Consolidation Efforts
DAAS	Defense Automatic Addressing System
DAI	Defense Agencies Initiative
DDCMO	DoD DEMIL Coding Management Office
DEMIL	Demilitarization
DERP	Defense Environmental Restoration Program
DERA	Defense Environmental Restoration Account
DFAS	Defense Finance and Accounting Service
DFORGEN	Disposal Forces Generation
DLA	Defense Logistics Agency
DLAI	Defense Logistics Agency Instruction
DLA SM	Defense Logistics Agency Strategic Materials
DMLSS - W	Defense Medical Logistics Standard Support Wholesale
DoD	Department of Defense
DoDD	Department of Defense Directive
DoD EMALL	DOD Electronic Mall
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
DOL	Department of Labor
DEMA	Defense Micro-Electronics Activity
DMLPC	Defense Medical Logistics Proponent Committee

DR	Disaster Relief
DRRS	Defense Readiness Reporting System
DRT	Disposal Remediation Team
DSCA	Defense Support to Civil Authorities
DSU	Disposition Services Unit
DSS	Distribution Standard System
DWCF	Defense Working Capital Fund
DWWCF	Defense Wide Working Capital Fund
EA	Executive Agent
EAGLE	Employee Activity Guide for Labor Entry
EBCO	Enterprise Business Cycle Owner
EBS	Enterprise Business System
ECD	Estimated Completion Date
EDA	Electronic Document Access
EDRT	Expeditionary Disposal Remediation Team
EOY	End of Year
ER	Effectiveness Reviews
ESAPI	Enhanced Small Arms Protective Inserts
ESoD	Enterprise Segregation of Duties
ESORTs	Enhanced Status of Resources and Training System
ESSs	Expeditionary Equipment Sets
ETL	Essential Task List
EUCOM	European Command
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FEA	Fuel Exchange Agreement
FEAMS	Functional Executive Agent Medical Support
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FES	Fire and Emergency Service
FFMIA	Federal Financial Management Improvement Act
FFMR	Federal Financial Management Requirements
FIAR	Financial Improvement Audit Readiness
FIROC	Forces Command Intelligence Readiness and Operations Center
FISCAM	Financial Information System Controls Audit Manual
FLIS	Federal Logistics Information System
FMD	Fuels Manager Defense
FMFIA	Federal Manages' Financial Integrity Act of 1982
FMR	Financial Management Regulation

FMS	Foreign Military Sales
FTE	Full Time Employee
FTE	Full Time Equivalent
FTX	Field Training Exercise
FY	Fiscal Year
FYDP	Future Year Defense Program
GEOINT	Geospatial Intelligence
GF	General Fund
GPC	Government Purchase Card
GRF	Global Response Force
GSF	Gross Square Foot
HA	Humanitarian Assistance
HAZMAT	Hazardous Material
HD	Homeland Defense
HDR	Humanitarian Daily Rations
HW	Hazardous Waste
IAW	In Accordance With
ICOFR	Internal Control over Financial Reporting
ICOFS	Internal Control over Financial Systems
ICONO	Internal Control over Nonfinancial Reporting
ID	Identification
IDP	Internally Displaced Persons
IFR	Instrument Flight Rules
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Info Act
IPV	Industrial Prime Vendor
IR	Incident Report
iRAPT	Invoice, Receipt Acceptance and Property Transfer
IRP	Installation Restoration Program
ISAs	Industrial Support Activities
IT	Information Technology
ITGC	IT General Control
ITV	In-Transit Visibility
JBPHH	Joint Base Pearl Harbor Hawaii
JCASO	Joint Contingency Acquisition Support Office
JDF	Joint Deployment Formulary
JEOC	Joint Engineer Operations Course
JLOC	Joint Logistics Operations Center
JSOC	Joint Special Operations Command
LESO	Law Enforcement Support Office

LGAs	Law Enforcement Agencies
LOE	Line of Effort
LSA	Logistics Supportability Analysis
LSN	Local Stock Number
LTC	Long Term Contract
M-DOC	Maintenance Document
MA	Material Availability
MBBLS	Millions Barrels
MCF	Medical Contingency File
MCRW	Medical Contingency Requirements Workflow
MCSC	Marine Corp Systems Command
MD&A	Management Discussion & Analysis
MDMC	Marine Depot Maintenance Command
MEFPAK	Manpower Equipment Force Package
MHA	Major Headquarters Activity
MHE	Material Handling Equipment
MILCON	Military Construction
MIE	Materiel Item Estimate
MMRP	Military Munition Response Programs
MOF	Master Ordering Facility
MRA	Manpower Equipment Force Package (MEFPAK) Responsible Agency
MRE	Meals Ready to Eat
MRS	Military Retirement System
MSO	Map Support Office
NAVFAC	Naval Facilities Engineering Command
NAVSEA	Naval Sea Systems Command
NDS	National Defense Stockpile
NDSTF	National Defense Stockpile Transaction Fund
NGA	National Geospatial Intelligence Agency
NIIN	National Item Identification Number
NOF	Notice of Findings
NOR	Net Operating Results
NORTHCOM	Northern Command
NSN	National Stock Number
NWRM	Nuclear Weapons Related Material
O&M	Operation and Maintenance
OCONUS	Outside the Continental United States
OCORT	Overseas Contingency Operations Readiness Training
OGC	Office of General Counsel
OMB	Office of Management and Budget
OPM	Office of Personnel Management

OPMG	Office of Provost Marshal General
ORT	Order Response Time
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OWCP	Office Workers' Compensation Programs
PBA	Performance Based Agreements
PCRs	Program Compliance Reviews
PDW	Procurement Defense Wide
PLFA	Primary Level Field Activity
PLM	Professional Labor Management
PMO	Program Management Office
PMT	Program Management Team
PP&E	Property, Plant, and Equipment
PPR	Post Payment Review
PR	Purchase Request
PY	Prior Year
QRF	Quick Reaction Forces
R2	Responsible Recyclers
R/T/D	Reutilization/Transfer/Donation
RACER	Remedial Action Cost Engineering and Requirements
RAF	Regionally Aligned Forces
RAS	Retirement Account Statement
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test & Evaluation
RFC	Request for Change
RMD	Resource Management Decision
ROI	Return on Investment
S&D	Storage and Distribution
SA	Self-Assessment
SAP	Simplified Acquisition Procedure
SARA	Superfund Amendments and Reauthorization Act
SBR	Statement of Budgetary Resources
SC	Supply Chain
SCAs	Supply Chain Alliances
SCI	Supply Chain Integration
SCM	Supply Chain Management
SCNP	Statement of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
SKU	Stock Keeping Unit
SM	Security Management
SNC	Statement of Net Cost

SNO	Strategic Network Optimization
SOCOM	Special Operation Command
SoD	Segregation of Duties
SOF	Special Operations Forces
SPV	Subsistence Prime Vendors
SRM	Supplier Relationship Management
SS	Strategic Sourcing
SSAs	Strategic Supplier Alliances
STORES	Subsistence Total Order and Receipt Electronic System
SV	Scrap Venture
T&E	Train and Equip
TLAMM	Theater Lead Agent for Medical Materiel
TF	Transaction Fund
TFM	Treasury Financial Manual
TI	Treasury Index
TSP	Troop Support Planners
TTAT	Time to Award Team
USACE	United States Army Corps of Engineers
USACOM	United States Army Special Forces Command
USAID	United States Agency for International Development
USASAC	United States Army Security Assistance Command
USC	United States Code
USD	Under Secretary of Defense
USGAAP	United States Generally Accepted Accounting Principle
USMC	United States Marine Corps
USNS	United States Naval Ship
USPACOM	United States Pacific Command
USTRANSCOM	United States Transportation Command
USSGL	United States Standard General Ledger
VFR	Visual Flight Rules
WFPP	Wildland Fire Protection Program
WoG	Whole of Government

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